Domtar

IT'S WORKING

1999 ANNUAL REPORT

THE DOMTAR STRATEGY IS WORKING... BECAUSE OUR PEOPLE ARE WORKING HARD TO ADD VALUE TO EVERY PRODUCT WE SELL. AS LONG AS THERE'S A BETTER WAY TO MAKE A PRODUCT, IMPROVE CUSTOMER SERVICE, SHAVE COSTS A LITTLE FINER, RATCHET PRODUCTION A LITTLE HIGHER... THEIR WORK IS NEVER DONE.

WE ALSO KNOW OUR STRATEGY IS WORKING BECAUSE CUSTOMERS, SHAREHOLDERS AND EMPLOYEES ARE TELLING US SO, DEMONSTRATING THEIR CONFIDENCE IN DOMTAR AND IN OUR VISION TO BE A WORLD LEADER IN THE INDUSTRY.

www.domtar.com


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Danika Lacroix
Daniel Michaud
Nancy Blackburn
Christian Fleury

Domtar's Vision

IS TO GROW AND BE A WORLD LEADER IN FOREST MANAGEMENT AND IN PAPER, PULP AND WOOD PRODUCTS.

Domtar's Mission

IS TO ANTICIPATE AND MEET THE EVER-CHANGING NEEDS OF ITS CUSTOMERS, TO PROVIDE ITS SHAREHOLDERS WITH ATTRACTIVE RETURNS, AND TO FOSTER A DYNAMIC AND CREATIVE ENVIRONMENT IN WHICH SHARED HUMAN VALUES AND PERSONAL COMMITMENT PREVAIL.

Domtar's Values

CREATIVITY AND INNOVATION

COMMITMENT

ENTREPRENEURSHIP AND INITIATIVE

JUDGEMENT AND DISCIPLINE

LEADERSHIP

PERSEVERANCE AND DETERMINATION

PROFESSIONALISM AND INTEGRITY

RESPECT FOR OTHERS

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Financial Highlights

(In millions of Canadian dollars, unless otherwise noted)

	1999	1998	1997
Operating results			
Net sales	**3,083**	2,348	1,938
EBITDA	**608**	384	200
Operating profit	**379**	200	56
Net earnings (1)	**163**	74	8
Net earnings per share (1)	**0.87**	0.44	0.04
Weighted average number of common shares outstanding (millions)	**183.9**	163.4	150.4
Balance sheet data			
Total assets	**4,019**	4,030	2,962
Net debt-to-total-capitalization (%) (2)	**37%**	41%	32%
Year-end book value per common share	**9.44**	8.73	8.03
Cash flows			
Cash flows from operating activities	**326**	248	125
Additions to fixed assets	**214**	212	132
Free cash flow	**112**	36	(7)
Value creation			
Improvement in EVA® (3)	**101**	37	(36)
Return on common shareholders' equity (ROE)	**10%**	5%	1%

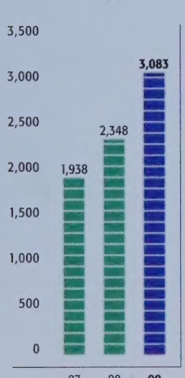
(1) The 1997 figures exclude a non-recurring $17-million after-tax gain realized on the contribution of Domtar's packaging net assets to Norampac.

(2) Ratio of long-term debt and bank borrowings (net of cash and short-term investments) to total capitalization.

(3) Economic Value Added (EVA®) is a registered trademark of Stern Stewart & Co.

NET SALES

(In millions of $)



NET EARNINGS (1)

(In millions of $)

FREE CASH FLOW

(In millions of $)

IMPROVEMENT IN EVA®

(In millions of $)

ROE

(In %)

Domtar

Overview

PAPERS

1999 HIGHLIGHTS

COMMUNICATION PAPERS
- Launch of e-PAPER™, an Internet-based service for customers at www.domtar.com
- Development of customer-driven innovative products and technologies for the growing digital printing market
- Production efficiencies and cost reductions achieved at the Windsor, Cornwall and St. Catharines facilities and new productivity records at the Windsor mill.
- Significant turnaround in profitability and record production at the Lebel-sur-Quévillon pulp mill
- Responsible Care® certification: a world first in the pulp and paper industry for the Windsor mill

EDDY SPECIALTY PAPERS
- Continued success in product and market development: new Lighthouse Gloss papers and a major increase in wallpaper sales
- Launch of value-added Elemental Chlorine Free pulp and Engineered hardwood pulps made from select-blended species
- Increase in overall mill productivity
- Wet end rebuild of Ottawa-Hull's paper machine No. 14: increase in coated freesheet capacity
- Upgrade of paper machine No. 2 at Espanola mill: increase in productivity

MAJOR PRODUCT LINES

COMMUNICATION PAPERS
- Offset printing paper, opaque offset, premium text, writing and cover, premium offset text and cover, bristol, tags, cover and boards, Cornwall coated cover, packaging grades, file folders, photocopy paper, bond paper for forms and computer printouts, envelope paper, colour offset and copy, recycled paper
- Bleached and Unbleached Northern Softwood Kraft pulp

EDDY SPECIALTY PAPERS
- Lightweight and heavyweight film, matte and gloss coated freesheet grades, lightweight opaque printing grades, uncoated offset
- High quality coated papers for commercial and specialty markets: text and cover, virgin and recycled, gloss, dull and matte finishes
- The Division participates in several niches of the technical and specialty papers category, primarily base stock used by the flexible packaging industry in the production of food and medical paper products, packaging for various industrial applications including surgical gowns and drapes, imaging papers for ink-jet and blueprint paper applications, backing for sandpaper, wallpaper base, release paper for self-adhesive products and transfer paper
- Northern Bleached Hardwood and Softwood Kraft Pulp

WOOD

1999 HIGHLIGHTS

WOOD PRODUCTS
- New line of premium quality, edge-glued pine panels for the do-it-yourselfer
- Product mix upgrades and fine tuning: five-fold increase in value-added products
- Work-in-process approach to develop products answering customer needs
- Softwood lumber recovery rate increase of 11%
- Fibre grading quality improvement of more than 10%: higher-quality products and greater revenue
- ISO 9002 certification process initiated in sawmills
- Continuous improvement process: more than 30 workshops

FOREST RESOURCES
- Key role in establishing the Ontario Forest Accord – a unique agreement among government, environmental groups and forest industry regarding forest management and protected areas
- Forest Stewardship Council (FSC) certification audit completed on Domtar lands in the U.S.
- ISO 14001 forest management certification process initiated – to be completed by 2002
- Sawmill and pulp mill productivity enhanced through species segregation, inventory reductions and delivery of recently harvested wood
- Ongoing exploration of mutually-beneficial business opportunities with Aboriginal communities and entrepreneurs

MAJOR PRODUCT LINES

WOOD PRODUCTS

Lumber
- Kiln-dried random length and studs primarily for residential construction
- Rough-sawn lumber for industrial use and remanufacturing
- Value-added lumber: Premium, J-Grade, Machine Stress Rated (MSR)
- Shrink-wrapped laminated pine panels

Veneer

FOREST RESOURCES
- Recently harvested wood sorted by size and species from sustainably managed forests

PACKAGING (NORAMPAC INC.)

1999 HIGHLIGHTS

- Largest containerboard producer in Canada and 10th largest in North America; also, largest Canadian manufacturer of corrugated products
- Productivity and efficiency gains of $75 million dollars since the creation of Norampac in December 1997
- Reduction in debt ratio from 44% at the beginning of 1998 to 37% at the end of 1999
- Productivity gains of 6% for the paper mills in 1999 over 1998
- 7% increase in containerboard shipments and 5% increase in corrugated containers shipments compared to 1998
- ISO certification at Red Rock and Avot-Vallée S.A. (Blendecques) mills

MAJOR PRODUCT LINES

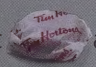
Containerboard
- Linerboard, brown, white or coloured, made from recycled or virgin fibres
- Corrugating medium made from recycled fibres or semi-chemical pulp
- High performance brown, white or coloured grades in various basis weights

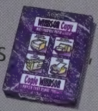
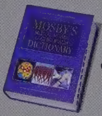
Corrugated Products
- Corrugated containers (single, double or triple-wall, microflute)
- Intricate die-cut, irregular size boxes
- Moisture resistant, wax-coated and wax impregnated boxes
- Van line boxes and bulk bins
- Flexographic printing directly on corrugated containers, up to 6 colours
- Lamination of lithographs on corrugated containers
- Point-of-purchase displays and other promotional material
- Corrugated pallets
- Packaging design

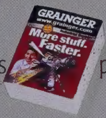
We've made it!

Look around. If there's a paper or wood product near you – there's a good chance we've made it! Domtar is Canada's number one manufacturer of specialty and fine papers, as well as a leading producer of wood products. **On movie night,** Domtar plays a strong supporting role in the paper for your tickets, wrappers for your gum 

and candy  – even for your popcorn bags . Still hungry after the movie? Chances are your hamburger 

or doughnut  are also wrapped in Domtar papers, and served on Domtar place mats 

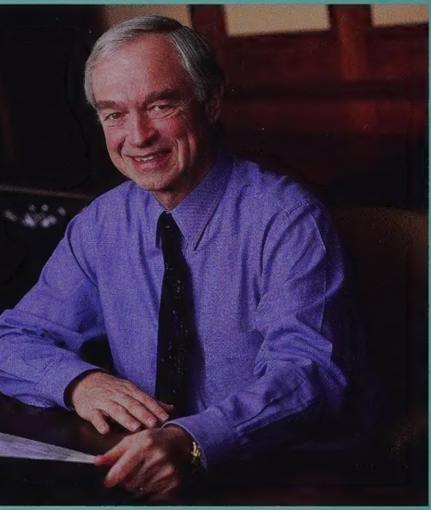
. **Naturally,** we also make fine printing papers, like the paper for this annual report . Internet surfers enjoy one of North America's leading photocopy sheets , which performs impeccably on laser printers . We also make paper for digital imaging  and the base for printing digital photos. **Closer to home,** publishers choose Domtar papers for lavish coffee-table books , for dictionaries,  and art books . We're on the news stand and in your mailbox, in magazines 

and catalogues 

printed on special lightweight paper. We're even behind your wedding invitations 

, job résumé and baby's birth announcement. **In the critical healthcare field,** Domtar papers are used for surgical gowns  and as sterile barrier wrappers for surgical instruments  and dressings, specially designed to minimize particulates. **We even make the wallpaper**  **surrounding you.** And what's behind that paper? In many North American homes – and as far away as Japan – you'll find Domtar building-grade lumber . We also make premium lumber for home building projects  such as the deck that will finally complete your backyard. Plus, we make lumber for the toy box  or entertainment center  you've always been meaning to build. **And finally,** through our investment in Norampac, we produce containerboard and corrugated products such as boxes for countless items – from cell-phones  and toys 

, to pizza, beer and wine. **...Plus reams and reams of Domtar paper.** 



RAYMOND ROYER
PRESIDENT AND CHIEF EXECUTIVE OFFICER

IT'S WORKING...

THE MEMBERS OF THE DOMTAR TEAM ARE PROUD TO PRESENT THE CORPORATION'S RESULTS FOR 1999. THROUGH THE VIGOROUS APPLICATION OF ITS STRATEGY AND COMMITMENTS, DOMTAR HAS PRODUCED AN OPERATING PROFIT OF $379 MILLION, REPRESENTING AN AVERAGE RETURN ON SHAREHOLDERS' EQUITY (ROE) OF 10% FOR THE YEAR ENDED DECEMBER 31, 1999.

THESE RESULTS ARE PROOF POSITIVE THAT THE STRATEGY WE IMPLEMENTED THREE YEARS AGO TO MAKE DOMTAR ONE OF THE BEST PERFORMING PULP AND PAPER COMPANIES IN NORTH AMERICA, IS WORKING. IT ALSO PUTS DOMTAR IN A VERY STRONG POSITION TO SUSTAIN ITS GROWTH AND STAY WITHIN REACH OF ITS OBJECTIVE OF PROVIDING A 15% ROE OVER AN ENTIRE BUSINESS CYCLE.

THIS PERFORMANCE IS ALL THE MORE REMARKABLE BECAUSE THE AVERAGE SELLING PRICES FOR OUR PRODUCTS IN 1999 – TAKING INTO ACCOUNT THE POSITIVE FLUCTUATIONS OF THE AMERICAN DOLLAR OVER THE CANADIAN CURRENCY – WERE AT LEAST 4% BELOW THE PRICES OF 1996, WHICH ARE THE USUAL REFERENCE POINT FOR ESTABLISHING THE AVERAGE PRICES IN A BUSINESS CYCLE.

There were four key elements in our strategy:

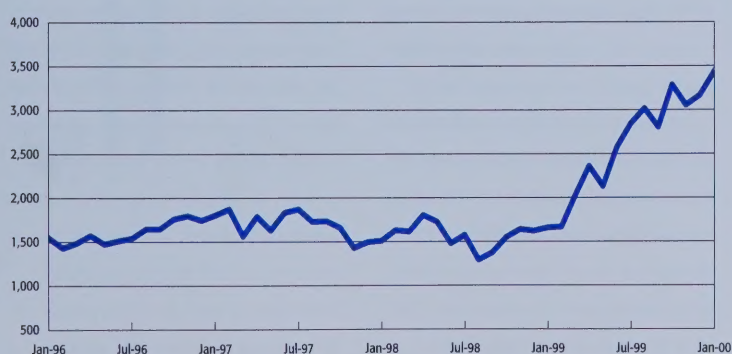
- Develop a corporate culture that values both customer satisfaction and shareholder returns, based on the marketing of high-quality products that meet our customers' varied needs.
- Exercise strict cost control and raise productivity in a healthy, dynamic work environment that highlights the talents and professionalism of our employees.
- Allocate capital expenditures based on economic value added (EVA®) and limited annually to the Corporation's total depreciation.
- Expand our business activities into sectors that enable us to maximize our expertise and assets while respecting our acquisition criteria.

In 1999, the implementation of this strategy had two notable results:

- The completed integration of E.B. Eddy, acquired in July 1998, which added almost $1 billion to Domtar's sales and improved the stability of our earnings.
- Our Quality and Productivity Improvement Program contributed $75 million to our profitability in 1999 – $15 million more than our starting objective of $60 million. Since this program was launched three years ago, we have achieved permanent profitability improvements totaling $195 million, net of inflation, which translates into savings equivalent to more than $1 per common share. Best of all, these improvements were achieved without resorting to personnel reductions.

MARKET CAPITALIZATION EVOLUTION

(In millions of dollars)



Financial markets recognize our value

Investors and the financial community have reacted positively to our employees' concerted efforts to improve Domtar's profitability, as a number of events during the past year show:

- Moody's and Standard & Poor's re-established Domtar's credit ratings to Investment Grade.
- Domtar was listed on the TSE60/S&P on the Toronto Stock Exchange and on the worldwide 1200/S&P index.
- Dow Jones included our stock in the Dow Jones Sustainability Group Index (DJSGI), an index that includes 200 companies around the world, selected among the 2,800 companies registered in the Dow Jones Global Index. The DJSGI is distinct from other indexes because it lists companies whose decision-making takes into account the environment and social responsibility.

These acknowledgements, recognizing our accomplishments of recent years, explain in part the increased value of Domtar's common shares. The value of these shares rose from $8.85, at December 31, 1998, to $17.10, at December 31, 1999. In addition, the Corporation's market capitalization grew from $1.5 billion last year to $3.2 billion at the end of 1999.

All segments contributed to our improved profitability

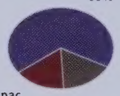
Domtar's activities are based on two segments, Papers and Wood, plus Norampac, our joint venture with Cascades. Norampac was created when the two partners amalgamated their respective packaging activities in December 1997. These two segments and Norampac contributed to the Corporation's excellent performance in 1999.

The papers segment includes the Communication Papers and Eddy Specialty Papers Divisions. This segment is supported by a large network of 300 Domtar-owned Merchants and independent distributors located throughout North America – an exceptional sales force for Domtar.

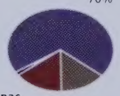
- **Communication Papers**

In this Division, we concentrated our manufacturing and marketing efforts on increasing customer satisfaction and improving effectiveness. More specifically, we focused on service and quality for the distributors supplying our Communication Papers customers. These distributors now have access to a comprehensive e-business application that enables them to process all aspects of their sourcing from Domtar on a real-time basis.

1999 CONTRIBUTION TO NET SALES



1999 CONTRIBUTION TO OPERATING PROFIT



• **Eddy Specialty Papers**

The Division, which encompasses E.B. Eddy's paper activities, met all of our expectations by broadening our product line and providing synergies with the Communication Papers Division. This Division also expanded its development of very specialized papers in response to the specific needs of a number of industries, from medical supplies to wallpaper.

The wood segment is composed of the Wood Products and Forest Resources Divisions. By completing the integration of the new sawmills and vast woodlands in Ontario associated with E.B. Eddy, this segment clearly made a more significant contribution to the Corporation's profitability in 1999.

• **Wood Products**

In the past year, the key focus for this Division was efficiency. Given the same volume of wood harvested, the Division's improved production techniques achieved an 11% increase in lumber recovery and introduced higher value-added products to the market.

• **Forest Resources**

Responsible for the forests to which Domtar has access, this Division is working very hard to achieve forest-management certification according to internationally recognized standards, and also to obtain the most value from various species.

Last year, the Division played a key role in a landmark agreement that became a source of inspiration on an international level. The Ontario government, in collaboration with Domtar and environmental groups, signed an agreement to increase the proportion of protected areas from 8% to 12% of the province's total territory. Despite our smaller forest allotment, we obtained guarantees protecting the volume and quality of the wood and the costs related to our forestry operations, thus reconciling our expectations with those of the government and environmental groups.

Norampac

Norampac continues to prosper. Domtar's share of Norampac's operating profit doubled in 1999 and the price increases that have stimulated this entire sector seem to be holding.

Personal commitment: the key to our success

To attain our objective of an average return on shareholders' equity of 15% over a business cycle, we had to conduct an in-depth review of the Corporation's practices. We have combined the best management and operational practices to better satisfy the expectations of our customers, shareholders and employees.

We also launched across the Corporation a training program which encourages all members of the Domtar team to become involved in improving the quality of our products and services and reducing costs. Our methods are based mainly on statistical process control and the elimination of activities with a low added value. These methods, supported by our employees' active participation, are the basis for profitability improvements totaling $195 million, net of inflation, since 1997. We intend to continue this program in 2000, with an objective of $36 million.

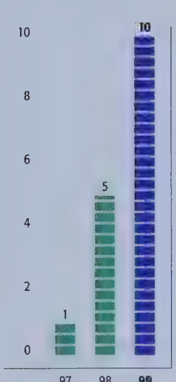
We would like to thank all our employees for their commitment to these management and operational techniques, which have enabled Domtar to pull away from the competition. Their support of the Corporation's strategy shines through in their creativity, energy, and professionalism. Moreover, our employees'

Jacques Girard,
Chairman of the Board

Raymond Royer,
President and Chief Executive Officer

ROE

(In %)



commitment is further demonstrated through their increased participation in the Corporation's employee shareholder program: the percentage of employee shareholders has more than tripled in the last three years and now stands at 33%.

Finally, to reward this commitment, we have instituted a profit-sharing program, available to all employees, which recognizes their contribution to creating value for shareholders.

Moving ahead with profitable growth

We are highly motivated by the positive results obtained in the past year and we intend to continue our efforts in carefully executing our strategy in order to build Domtar into one of the best performing pulp and paper companies in North America.

Thanks to a reduction in our debt level from 41% in 1998 to 37% in 1999, we will continue to examine business opportunities like Norampac and E.B. Eddy, which will enable us to optimize our expertise and assets while adding to the Corporation's critical mass and returns.

The evaluation of any growth opportunity through acquisition or partnership will, however, be subject to two fundamental criteria:

- The transaction, acquisition, or partnership must create value for our shareholders; and,
- Once the transaction is completed, the Corporation's level of debt must not exceed 45%.

LOOKING AHEAD

The future looks even brighter for Domtar. In the Papers segment, better prices are expected in 2000. In addition, we are continually taking advantage of new market trends that increase the demand for our papers – like home computers and the Internet driving the growth in copy papers – or that give us the opportunity to commercialize customer-driven innovative products such as our papers especially formatted for the new low-print-run digital presses. We intend to proactively respond to market trends and anticipate our customers' evolving needs.

As for the Wood segment, we intend to boost our market share by introducing higher-value-added products and by improving customer service, while increasing our lumber recovery rate.

Furthermore, the results for the last three fiscal years, and particularly for 1999, show that our customers and shareholders have welcomed our improvements to the quality of our products and services, not to mention our productivity. Our employees also appreciate Domtar's environment of real challenges and real accomplishments.

In short, we are entering the new millennium with optimism and a commitment to give our shareholders returns worthy of one of the best performing pulp and paper companies.

Jacques Girard

Jacques Girard
Chairman of the Board

Raymond Royer

Raymond Royer
President and Chief Executive Officer

Net gains at Domtar.com

Domtar's Internet presence is growing. For example, a team from Communication Papers Division, led by Normand Lecours (front) is capitalizing on e-commerce with e-PAPER™. Domtar is the first North American paper company to offer such comprehensive e-commerce solutions to distributors. Customers can get answers and place orders – all via cyberspace.

Liz Chase (left) was part of the team that created "Contrast." The world's first publication of its kind, produced by designers, separated by geography but united by the Net.

Noticing that designers spend hours surfing the Web for information, Jack Miller (right) and his team created the cutting-edge Creativetoolkit. Jack, Liz and Cathy Avery (center) contributed to the Net's richest source of industry trends, contests, tips, shareware – and information on Domtar papers, of course! e-Paper™ and Creativetoolkit are available at www.domtar.com.

IT'S WORKING... BECAUSE OUR PEOPLE IN THE COMMUNICATION PAPERS AND EDDY SPECIALTY PAPERS DIVISIONS – FACING PERSISTENTLY LOW PRICES IN EARLY 1999 – REMAINED FOCUSED ON ANTICIPATING AND MEETING CUSTOMER NEEDS. THEY MADE KEY BREAKTHROUGHS IN PRODUCTION, DEVELOPED NEW CUTTING-EDGE PRODUCTS AND LED THE INDUSTRY WITH BETTER, FASTER CUSTOMER SERVICE. THEIR INPUT AT ELEVEN CONTINUOUS IMPROVEMENT WORKSHOPS WAS ALSO INVALUABLE, CONTRIBUTING TO INCREASED PROFITABILITY AND SHAREHOLDER VALUE.

Two markets, one commitment

When Domtar's paper business was structured into two divisions, Communication Papers and Eddy Specialty Papers in 1998, the goal was to encourage creative ways to share best practices, cross-sell products, reduce costs and raise productivity. We made significant progress toward that goal in 1999 during Eddy Specialty Papers' first full year within the Domtar fold. A few examples of synergy in action:

• Consolidation of distribution and purchasing: adding Eddy Specialty Papers' inventory to Communication Papers' Detroit warehouse improved distribution and reduced costs. Also in 1999, Domtar-owned Merchants, which operate an extensive fine papers distribution network, began offering products from Eddy Specialty Papers in the Southeastern Ontario market. By selling products from both divisions, Domtar-owned Buntin Reid, for example, gained a wider product offering and sharpened its competitive edge.

• Product transfers: moving Kraft envelope paper production from Ottawa-Hull to the St. Catharines mill freed up precious machine time for higher-value specialty papers. Similarly, to meet increasing customer demand, the Vancouver mill now complements the Cornwall mill's production of Cornwall Coated Cover.

• Technologies and research findings are shared to raise standards: the Cornwall mill has now taken over the landspreading of biosolids for Eddy Specialty Papers' Ottawa-Hull mill, and is sharing its expertise with the Vancouver and Espanola mills.

Pulp mills also benefited from synergies

• Where the Windsor mill used to buy some pulp from external suppliers, it now sources all pulp internally.

• A unified pulp sales group was put in place to market pulps produced by all Domtar mills.

Customer-driven R&D

Efforts to align operations between both paper groups, bringing them closer to the customer, extended even to Domtar labs. Research and development activities were transferred to individual mills. This ensures that researchers are more responsive to customer needs and their activities have immediate customer applications.

"Weeds" growing like... a weed

"Focus groups told us that consumers would love to see a 100% Forest-Free paper," says Peter Gilbert of Domtar. "That's when we came up with Weeds," adds technical expert Dan Mano [back]. "It contains 85% sugar cane, 15% hemp fibre – and is just what the customer ordered."

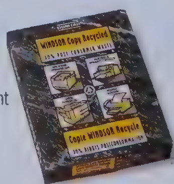
Communication Papers

COMMUNICATION PAPERS SELLS HIGHER-VALUE COMMODITY AND SEMI-COMMODITY PRODUCTS, WHICH ARE GAINING MARKET SHARE ACROSS NORTH AMERICA. THE DIVISION RAMPED UP ITS MARKET RESEARCH IN 1999, LISTENING TO CUSTOMERS AND RESPONDING WITH INNOVATIVE PRODUCTS AND TECHNOLOGIES.

Products geared to the customer

Customer-driven innovation means not just developing the right product, but doing it at the right time, in step with the market's evolving needs:

- **Cornwall Digital/Plainfield Digital:** specially-formatted and packaged for the growing digital printer market, Cornwall Digital/Plainfield Digital sheets are now more convenient for copy shops and commercial or in-plant digital printers.
- **Insignia:** a new family of papers that blend economy with quality. Insignia contains 50% recycled fibre, including up to 30% post-consumer fibre.
- **Papers for colour copiers:** a high quality uncoated grade with a very smooth finish, formulated for high-end colour copiers – one of the fastest growing markets.
- **30% post-consumer copy** (formerly 20%): specially created with higher post-consumer content, to meet U.S. government specifications.



- **Silk embossed coated cover:** targeted to designers, this premium value-added sheet is the only coated bristol from a North American paper manufacturer.
- **Weeds:** a 100% Forest-Free paper made from sugar cane and hemp fibre.
- **The Wedding Collection:** Domtar's latest retail entry, this is one of the most complete preprinted kits of invitations and companion pieces for home computer use on the market.

In tune with the customer

In order to further hone its mix of products and services, Domtar continued to ask questions and to listen.

- Customers said they wanted greater convenience when ordering. Domtar responded with a pilot program, enabling selected customers to place orders by phone, fax, Internet or Electronic Data Interchange (EDI). With e-PAPER™, Domtar is the first North American paper company to offer such a comprehensive range of e-commerce solutions to its distributors.

The range of options is made possible by an integrated system that links mills, distributors and customer service. Domtar-owned Merchants also implemented a full-scale Enterprise Resource Planning (ERP) system, with the objective of improving customer

Printers take Domtar for a Test Drive™…

Customers are always praising the on-press performance of Domtar papers – but they're already in the know! That's why in 1999, Domtar invited printers who hadn't recently used our papers to rate them for "runnability" and qualify for an event at the Molson Indy in Vancouver. "Test Drive got a great reaction," says Allan Taylor of Domtar. "Printers learned first-hand why our grades are so highly rated."

…and Domtar wins over more printers

Winning Test Drive was fun, but did it change Joe Dwyer's basic product mix? "Absolutely! The contest got us to test drive Windsor Offset, and we were pretty happy with the results – so much so that we'll be adding Windsor Offset to our existing Domtar product mix, and it'll replace a competitor's commodity grade as our general purpose paper."

Eddy Specialty Papers

Eddy Specialty Papers focuses on niche end-use markets, producing value-added printing, technical and specialty papers. In 1999, the division enhanced its product development strategy, re-allocating resources to enter new markets and continue to win new customers.

Partnership goes global

"We were pleased when Bomarko, a U.S. flexible packaging converter, approached us to team up and try to win Warner-Lambert's global packaging contract," says Howard Hunter of Domtar (left). "The contract represents three new grades of paper and new business for us and Bomarko, supplying a world-renowned consumer and pharmaceutical products manufacturer." Howard joined Bomarko's President Kimball Mancke (right) on a team that traveled to Manchester, Barcelona and Puerto Rico to promote the product. "By packaging internationally recognized brands such as Halls, Trident and Certs, we're being rewarded with the Bomarko business and expect to see sales increases in 2000."

Innovating for the customer

Over the years, customers have come to expect innovation from Eddy Specialty Papers – and in 1999 they were not disappointed.

For example:

- **Lighthouse Gloss:** the ever-expanding Lightweight Coated family gained a new member.
- **Wallpaper:** the Ottawa-Hull mill's manufacturing and technical personnel achieved a breakthrough in wallpaper.
- **Engineered hardwood pulps:** the result of close work with Espanola pulp mill customers. Made from segregated hardwood or "select-blended" species, these pulps enable papermakers to more easily obtain the product qualities they want.
- **Ozone bleached hardwood market pulp:** also from Espanola, this is a North American first. This value-added Elemental Chlorine Free (ECF) pulp is brighter and more environmentally friendly than the chlorine bleached pulp it replaces.

Treating the customer right

A systems upgrade at the Vancouver mill, implemented in 1999, will continue to enhance every aspect of customer service, shipping and scheduling. Highlights include:

- Better stock rotation, which ensures that inventory is as fresh and uniform as possible.
- Automated schedule planning, which enables representatives to work out solutions with customers well before the delivery date.
- Better access to historical data, enabling sales people and customers to plan better for future opportunities.

Investments spur productivity

The past two years' investments contributed to Eddy Specialty Papers' ongoing strategy to achieve higher volumes and improved productivity. As a result of this strategy, overall mill productivity increased over 1998. With a view to increasing its momentum in support of customer demand, in 1999 the Division completed a number of key investments:

- The wet end rebuild of Ottawa-Hull's paper machine No. 14 led to an increase in coated freesheet capacity, along with record shipments of coated lightweight freesheet.
- With its expanded wallpaper offering, the Ottawa-Hull mill continued to evolve into a value-added specialty papermaker.
- An investment at the Vancouver Mill to improve base stock formation and profile resulted in a better quality product.
- Following an upgrade to paper machine No. 2 at Espanola, the mill realized an increase in throughput and greater production flexibility.
- Espanola's new hardwood pulp system enabled the pulp and paper mills to run more productively, thereby reducing costs. The use of select blended maple, birch and aspen species for making engineered ECF hardwood pulps, positions Espanola as a world-class producer.

...our customer's point of view

"For 73 years, Grainger has produced an industrial supply catalogue. The catalogue promotes our maintenance, repair and operating products and service solutions to customers throughout North America and around the world. Over the years, the first simple eight-page one-color pamphlet has evolved into the current 4,010-page catalogue with over 1,800 pages in four colors, with the help of the latest publishing technologies. The new 2000 Grainger catalogue has a whole new look and feel. Our goal was to find a paper product that was brighter, more opaque, had the necessary strength, and was thin enough to stay within existing bindery limits.

Working with WWF Paper, we evaluated papers from around the world and determined that Domtar's Eddy Specialty Papers met our quality specifications and had the capacity to meet our printing schedule for 2 million catalogues with Wallace Press. To accomplish our goal, a team consisting of Grainger, WWF, Domtar, and Wallace personnel coordinated the paper manufacturing with print production, avoiding any delays.

As Grainger moves into the 21st century, technology will continue to provide improvements in the way we communicate our product and service offerings to customers, whether it be by catalogue, CD-ROM or via the Internet at www.grainger.com. We appreciate the mutual respect and cooperation we get from reliable suppliers like Domtar."

15 million lb. shipped and counting...

Nine years in the making, a 1999 paper order from W.W. Grainger Inc., a leading business-to-business distributor, is the largest ever for Domtar's Eddy Specialty Papers. "My original sales call was in 1991," recalls Terry Paige. "It took perseverance, teamwork and sweat – lots of sweat – to secure the first order. But we won the business for the second year in a row by satisfying the customer." Specifically, this meant providing a quality product and outstanding service from mill, sales, marketing and customer service personnel.

LOOKING AHEAD TO 2000

Communication Papers and Eddy Specialty Papers will match and even surpass last year's positive performance, as long as they focus on two priorities: to be the customer's preferred supplier and a cost-competitive producer.

Wallpaper rolls out of Ottawa

"Sometimes persistence pays off," says Rob Belanger of Domtar. "In 1996, we identified paper machine No. 10 in the Ottawa-Hull mill as ideally suited for wallpaper. All the ingredients were right: machine size, coating capability, proximity to customers and, most important, a management committed to new specialty papers. Entering a mature market with entrenched competitors was daunting, but the team's persistence paid off with a two-fold increase in sales in 1999."

Preferred supplier

The first priority demands customer focus. This means listening closely to what customers say, anticipating their emerging needs and delivering the right product at the right time. In more concrete terms, it also means capitalizing on the enormous opportunities the Internet presents. The Communication Papers Division will make further investments to raise its Internet profile in 2000. With 25% of customers logging on to e-PAPER™ within a week of its launch, we're confident that e-commerce points to the future.

Meanwhile, Eddy Specialty Papers will focus on its traditional strengths, developing profitable new products that anticipate customer needs and enhance the product mix.

Using analyses undertaken in 1999, the Papers segment will continue to restructure its warehousing and distribution, rolling out increased efficiencies, maximizing synergy and customer satisfaction.

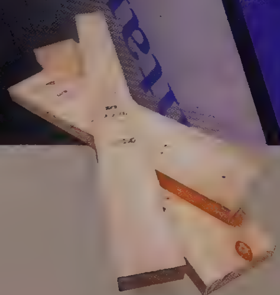
Cost-competitive producer

The second priority will be met by stepping up continuous improvement activities which have proven to be a powerful problem-solving tool. In addition, Communication Papers and Eddy Specialty Papers will continue to reap the many benefits of synergy, increasing the sharing of best practices, resources and distribution channels. Both groups will find new ways to continuously improve profitability by producing more higher value-added products, reducing waste and cost, and increasing production. The Communication Papers Division will ensure that the Windsor mill maintains its status as one of the lowest-cost producers in North America.

New label grade packs visual punch

With Bravo High Gloss Litho, customers are assured their packaging has exceptional eye and sales appeal. "The smooth surface gives excellent print gloss," explains Marianne Stinson of Domtar. "We created this product for one customer in 1997, hoping to eventually attract a few others." That's an understatement, as sales grew more than 50% year-over-year in 1999. Bravo High Gloss Litho dovetails with Domtar's strategy to develop and sell more value-added products to targeted customers.

Wood



It's a wrap!

Domtar's striking new lumber wrap is a moving billboard on roads and rails across North America. But as Domtar's Louise Dion points out, it's more than just attractive. "It connects lumber to people's homes," she says, "reminding us that Domtar products fill important social and economic needs." And since great wrapping needs a great wrapper, Louise is seen here with ace wrapper Patrick Lamontagne.

It's working... because

our people in the Wood Products and Forest Resources divisions were able to capitalize on a strong U.S. economy — without ever becoming complacent. Understanding that markets do fluctuate, in 1999 they focused on optimizing their use of fibre resources and providing customers with superior products and service, all the while maintaining their commitment to the principles of sustainable development.

Wood Products

Operating sawmills in Ontario and Québec, Wood Products sells lumber primarily for residential construction, and value-added products for industrial uses, remanufacturing and retail. Among Domtar divisions, Wood Products experienced the most significant impact from the continuous improvement process. It held more than 30 workshops and involved more than 600 employees. Their dedication and ingenuity were instrumental in finding better ways to increase softwood lumber production and quality from each log, while also improving customer responsiveness.

Just in time... just what the customer ordered

The Wood Products team, working closely with colleagues from Forest Resources, instituted "just-in-time" harvesting to supply our sawmills. The cascading benefits from this innovation include less waste, smaller inventories and the delivery of recently-harvested wood to the mills. Fresh wood produces higher quality products.

Customers gain more "pull"

In continuing efforts to work more closely with customers, in 1999 Wood Products made sweeping operational changes. Chiefly, this meant adopting a work-in-process approach, thus "pulling" products through the system as needed by customers, rather than "pushing" them through. As a result, cash flow is increasing while work-in-process inventories and working capital are both declining.

Gains in production, progress in products

- Wood Products increased its softwood lumber recovery rate by 11%, maximizing the lumber produced from every single log. A high recovery rate ensures more efficient use of resources, enabling us to produce more without harvesting more trees.
- The ISO 9002 certification process was begun in our sawmills, for better production and quality control.
- At more than half the mills, automated linear grading systems have been installed. This has improved fibre grading quality by more than 10%, which translates into higher quality products and greater revenue. At White River, for example, the system added more than half-a-million dollars to the mill's bottom line. Also, product mix upgrades and fine-tuning yielded a nearly five-fold increase in value-added wood products. These include J-Grade, Premium, Decking and Machine-Stress-Rated (MSR) products.

Domtar on deck...

With the Chapleau sawmill meeting its U.S. quota, management looked to develop new markets with the plentiful local jackpine. Decking was one answer – except the mill's machinery couldn't produce the required 12-ft. lengths. That's when lead millwright Yvon Proulx and his team solved the problem by inventing a new piece of equipment. Sales reached 6.2 million board feet in 1999, with projected sales of 10 million board feet in 2000. By the way, that's Domtar employee Martin Boily on deck.

And Domtar delivers...

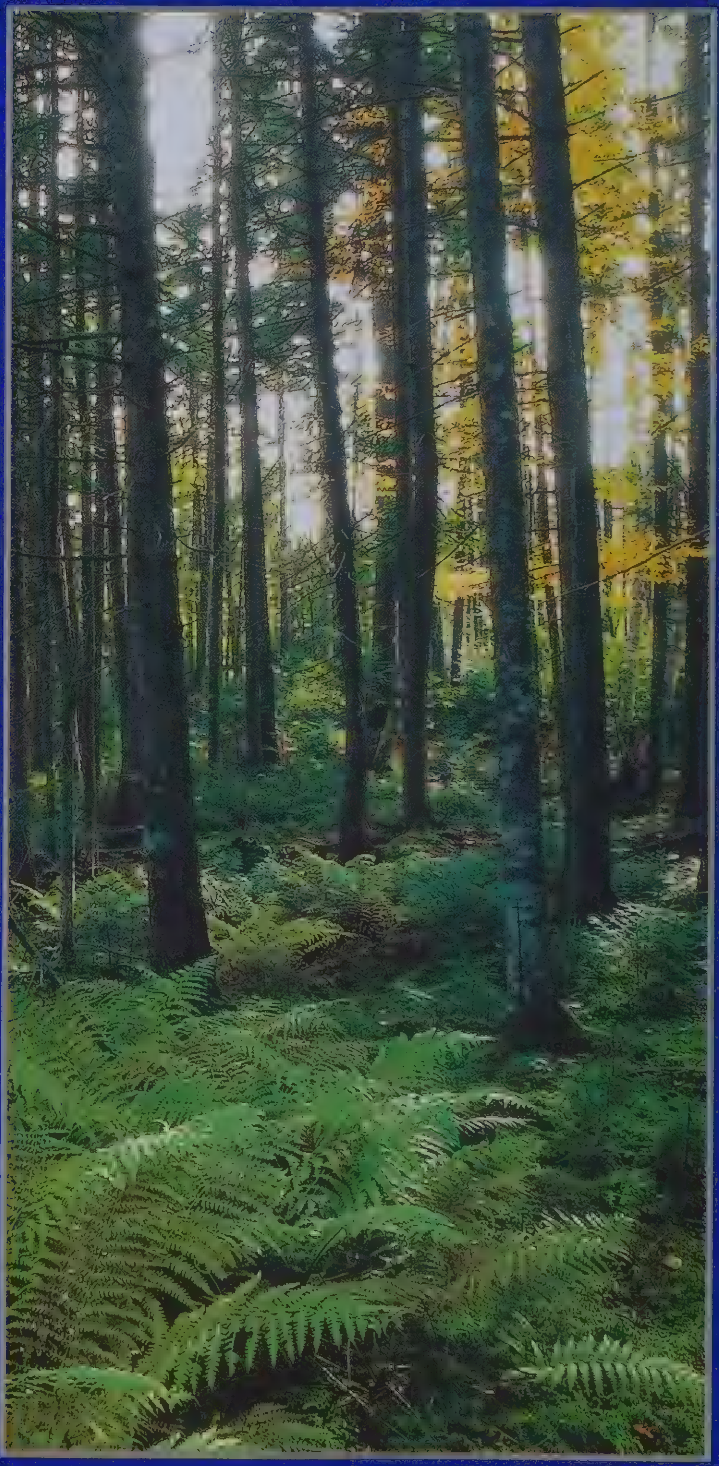
"Domtar listens to what we want," says Jeff Kilgour, "just as we listen to our customers." Kilgour should know. As Vice-President at Cashway Building Centres, with 66 outlets in Ontario, he's plugged into what pleases the "do-it-yourselfer".

"We sat down with Domtar and said our customers want a certain grade of premium lumber for deck construction, at a certain price. In short order, Domtar delivered."

Jeff Kilgour

Vice President of Forest Products and Distribution,

Cashway Building Centres



Forest Resources manages the Corporation's fibre resources in Ontario and Québec, as well as in the States of New York and Maine. In 1999, our people focused on increasing customer satisfaction by delivering better quality wood at the best possible time. In order to sustain our long-term growth, however, it is important to strike a balance between today's practices and tomorrow's needs. This is why Domtar forest management practices are meeting international standards, and why we seek constructive dialogue with other users of forest lands.

A picture is worth...

Over the years, Domtar has developed a unique system that produces highly accurate snapshots of our forests' condition. "We input tremendously complex and numerous factors," say Manon Gilbert and Patrick Lessard of Domtar. "But the beauty of it is in the results. We can query the system any way we like, and get a detailed map showing how, where and when a forest is ready for harvesting. It also enables us to integrate sensitive sites and landscapes in our planning. It's an invaluable tool for making better decisions, and presenting our plans to governments and the community."

Meeting customers' needs

The past year saw Forest Resources bring operations closer to its customers – Domtar sawmills and pulp mills. Forest Resources reaffirmed its commitment to deliver good-quality recently-harvested wood, thus reducing inventories by 20%. This type of wood, which is more resistant to staining and insect attack and has a higher moisture content, makes it easier for customers to maximize the lumber manufactured from each log.

Species sorting, begun in 1998, gained momentum during the past year. Working closely with mills, Forest Resources personnel segregated lumber and chips to help maximize fibre use and ensure better-quality downstream products. These include pure hardwood pulp, customer-specified blended pulps, and value-added lumber.

Seeking certification

In 1999, Domtar took the first steps toward obtaining ISO 14001 forest management certification, which requires introducing rigorous documentation, standardized forest management practices and provisions for continuous improvement. Certification will include third-party audits for compliance with all necessary standards. The ISO 14001 process also serves as an excellent base for supporting other standards, such as those of the Forest Stewardship Council (FSC) and the Canadian Standards Association (CSA), which respond to specific stakeholder and customer needs.

Respecting other stakeholders

In 1999, Forest Resources personnel worked with environmental groups and the Ontario government to reach a landmark agreement. "Ontario's Living Legacy" will see parks and protected areas increase, covering 12% of the province's territory. The agreement also ensures the maintenance of Northern Ontario's forest-based economy, and secures Domtar's supply and cost base.

The Québec government also announced that it intends to revise its forestry regime in 2000. As in Ontario, Domtar will strive to find arrangements that are fair to everyone.

Partnering with Aboriginal communities

In line with the kind of successful partnership in a sawmill maintained with the Waswanipi community since 1995, the past year saw Domtar forging several forestry-related economic development projects:

A secure future for Ontario forests

In 1999, Domtar personnel played a key role in a landmark environmental agreement. Says Craig McManus of Domtar (third from left): "The Ontario Forest Accord will contribute to the management, use and protection of Ontario's forests, ensuring that our natural legacy is available to all well into the future." Other participants in the round-table discussions that led to the Accord: (from left to right) James Lopez, Tembec, John Riley, Federation of Ontario Naturalists, Craig McManus of Domtar, Tim Gray, Partnership for Public Lands, Gail Beggs, Ontario Ministry of Natural Resources, Ron Reid, World Wildlife Fund and Don Hopkins, Abitibi-Consolidated.

- In partnership with the Pierre-Neveu School Board and the Human Resources Development Centre in Abitibi, workers from Lac Simon's Algonquin community received forestry and business management training. A similar agreement was reached with the Grand Lac Victoria Algonquin people.
- In response to the preoccupations expressed by members of the Waskaganish community, relative to a sturgeon hatching ground in the Kitchigama river, Domtar proposed a bridge structure that almost totally eliminated any impact on the river, and the fish species found in it.
- A two-year agreement between Domtar and Eskawkogan Timber calls for the thinning of 384 hectares of forest, providing employment to twenty Aboriginal people in the central Ontario region.
- Domtar is working closely with representatives of the Brunswick House First Nation near Chapleau, enabling the community to develop full forestry contracting capabilities. This includes the harvesting of 50,000 m^3 annually by specially trained teams.
- Domtar is working with the Matachewan First Nation, Northern College and an experienced local forester to develop a horse-logging program in northeastern Ontario.

LOOKING AHEAD TO 2000

The main challenge for Wood Products and Forest Resources in 2000 will be to bring activities even closer to the market. Efforts begun in 1999 – particularly in inventory reduction, control and rationalization – will be intensified throughout 2000. Costs will be reduced and workflows improved to ensure the best wood is directed to mills best suited to process it.

Raising efficiency one more notch

To further increase our efficiency, operating flexibility and fibre recovery rate, we will make an appropriate investment in the coming years in order to place us in the top quartile of the industry. The Wood Products Division's Technical Services team will also work closely with mills to maximize fibre recovery, replace sawmill lines and embark on ISO certification. As a result, the past year's 11% gain in softwood lumber recovery will be matched in 2000. Similarly, more value-added products will be further developed.

Closing in on the customer

With much of the groundwork done, year 2000 promises to see the pace of change remain at high levels. "Just-in-time" production, introduced in 1999, will be fully developed as we increase our flexibility and responsiveness to customers. Technical Services will work with the Planning Services team, who can advise on the right products, specifications and packaging for the right customer.

Respecting our environmental commitment

In 2000, Domtar will complete a revision of its forestry policy, harmonizing it more closely with its long-term forestry management objectives and certification. Forest management certification will be pursued for much of Domtar forest lands, with the goal of completing the process in 2002. Certification will conform to stringent international environmental standards.

IT'S WORKING... BECAUSE THE TEAM AT NORAMPAC INC. IS CONTINUING TO REAP THE BENEFITS OF EXTENSIVE COST REDUCTIONS AND PRODUCTIVITY IMPROVEMENTS. AS A RESULT, DURING 1999, NORAMPAC REALIZED MARKED GAINS IN EFFICIENCY AND INCREASED PROFITABILITY.

It's a team effort

Norampac's introduction of continuous improvement workshops in January 1998, has led to the use of recycled paper for production, decreased inventory and optimized equipment layout. In 1999, Norampac, Division Montréal, applied the process to one of its presses in order to reduce downtime. The result: a 26% boost in efficiency. The workshops will continue in 2000, increasing efficiency and competitiveness. Above all, it is our employees' participation that ensures the success of the processes. From left to right: Christian Fleury, Jean Dubord, Claude Charlebois and Nathalie Duguay.

Keeping a close eye on costs

Created in December 1997 by amalgamating the packaging assets of Domtar and Cascades, Norampac is operated by Cascades through a renewable management contract. From the start, the company focused on identifying synergies between the two operations. As a result, recycling centres were deemed non-core and spun off and a number of supplier agreements were renegotiated for better terms.

Investing in our future

To further hone its competitive edge, Norampac continuously invests in new equipment and upgrades facilities. Among 1999 initiatives:

- Red Rock: $5 million was allocated toward the installation of a new odour control system.
- Drummondville: an investment of $5 million was made in a more modern corrugating machine.
- Vaudreuil and Mississauga (OCD): the two facilities welcomed new presses worth $6 million.
- Scarborough: a $2 million laminator was installed.
- France: a new $15 million de-inking facility was set up at the Norampac Avot-Vallée S.A. plant.

People are the key

In October 1999, Norampac hosted a major human resources conference for managers of its various production units. The event, which drew 150 people, allowed participants to discuss the management philosophy, which accentuates decentralization, responsibility and respect for individual employees.

LOOKING AHEAD TO 2000

The industry's continuing trend toward consolidation should stabilize the North American demand for Norampac products during the coming year. This will stimulate price increases, which will have a favourable impact on Norampac's profitability.

Norampac will continue to invest to upgrade its facilities and will consider the possibility of making acquisitions, particularly in the U.S.

To that end, Norampac recently announced a $40-million capital investment to transfer its Leaside, Ontario corrugated-container facility to a new plant 400,000 square feet in size to be located in the Metropolitan Toronto Area. This project is a key element of a capital investment plan that has been adopted for the year 2000 aimed at modernizing operations throughout Norampac. Norampac is a customer-oriented company. Its investment program aims to refine equipment flexibility and delivery times, as well as to offer our customers the best quality and broadest range of products.

People

Domtar is a partnership among customers, shareholders and employees. While all three partners are committed to realizing value, only one has the power to create it – the employee. We believe employees drive Domtar forward and supply a competitive edge. This is why Domtar encourages their contributions, and fosters a workplace where people can develop their full potential. And ultimately, this is why… it's working!

Phil "animates" our shared culture

With help from Phil and friends, Domtar employees are getting a multimedia lesson in corporate values. Chantal Nepveu, whose team was responsible for "hiring" Phil, explains: "During the two-day sessions, participants are encouraged to discuss their role within Domtar and our shared values. Why? Because individual decisions must rest on the same foundation. It's pretty rigorous...and fun!" Eight hundred Domtar managers participated in "Phil" sessions during 1999.

Building on our values

The quality of any enterprise is a reflection of the quality of its employees. Domtar's role is to foster a stable and safe work environment where employees can expand their skills and contribute to the growth of the Corporation. Through a philosophy of "Management by Commitment," we are building a foundation to enable that process. A training program called "Phil" helps employees understand where Domtar is headed, and how each individual can contribute. It also strengthens our core values – creativity, commitment, initiative, judgement, leadership, perseverance, integrity and respect.

In that same spirit, during the past year we implemented a new performance evaluation program that tailors action plans to the employee's individual goals and potential. And to reward employee commitment, we have instituted a profit-sharing program that recognizes their contribution to the Corporation's growth.

Domtar also reaffirmed its commitment to a workplace that is safe, healthy and secure. Indeed, recognizing its importance we strive to continuously improve our safety record.

Continuous improvement

Domtar's continuous improvement workshops are a forum where employees exercise their creativity to reduce costs, raise productivity and sharpen efficiency. Team members work closely to identify a problem's root causes, and then search for solutions. Does the program work? Absolutely! Employees' problem-solving contributed to increased efficiencies of $75 million in 1999 alone, for a total of $195 million since 1997, net of inflation.

There is a far more telling measure, however, of how highly Domtar values these continuous improvement workshops. On the final day of each session, when employees formally present the improvements they have realized, Domtar CEO Raymond Royer or a Senior Vice-President attends to share in the findings.

LOOKING AHEAD TO 2000

The initiatives begun in 1999 will be expanded in 2000 to further strengthen Domtar's corporate culture. Chief among these initiatives will be the "Phil" training program, which will be extended to all Domtar employees by the end of 2001. In addition, our successful continuous improvement workshops will be expanded, as the process has had spectacular benefits in terms of concrete results and a greater sense of empowerment for employees.

Environmental and Social Responsibility

Domtar is tied to the community through its people and their network of families, friends and neighbours. This is why we act locally to support community projects and the environment we all share.

Domtar also acts globally, revising its environmental and forestry policies regularly to adapt to the community's changing needs and ensure sustainable development. In the end, it's a matter of respect, for each other and for the places where we live.

In the forest: sharing our know-how

Most of Domtar's forestry operations are concentrated in Québec and Ontario, where we work with stakeholders to ensure that responsible forestry management will preserve our natural legacy for the future.

Domtar takes an inclusive approach to sharing its know-how. This is why, since 1991, we have been issuing this confident invitation: "We think we're doing a good job. Take a tour and make up your own mind." As a result, we've hosted more than 50,000 visitors on mill and forest tours.

In that same spirit of openness, in September, Domtar's Forestry Centre launched a full slate of new programs, designed to impart knowledge about forests and instill a life-long love of nature. Similarly, Domtar, in collaboration with the Information Highway Fund from Québec's Ministry of Culture and Communication, created an interactive biodiversity section on Domtar's virtual-education Web site. "The World of Trees" is at www.domtar.com.

While a "virtual" education is a good start, nothing can replace direct experience in the forest. For some years, a partnership between Domtar, Québec's Ministry of the Environment and Wildlife, the Québec Wildlife Federation and Mar-Rin Territory has been offering a summer camp for kids.

At the mill: more with less

Doing more with less and reducing waste are good business practices. They also happen to be the best possible approaches to minimizing our impact on the environment. At the start of 1999, Domtar put more effort into increasing its lumber recovery rate – which means doing more without harvesting more – thereby maximizing fibre use from each log and reducing waste. Our people in sawmills met the challenge, boosting the recovery rate by 11%. We're aiming for another 11% improvement in 2000.

The efforts to reduce our environmental impact are corporate-wide. For example, the Cornwall mill now diverts 97% of all solid by-products to beneficial uses and was honoured

Responsible Care

When Domtar announced in 1996 that Windsor mill would adopt the Responsible Care® Program, it was the world's first paper mill to make that commitment. "Responsible Care® is among the world's toughest and most comprehensive safeguards for the environment, health and safety," says Windsor's Patsy Inglis. In 1999, Windsor scored another coup, earning the industry's Responsible Care® certification. It's a great achievement for Windsor, an even greater one for its neighbours and employees.

in 1999, for the third time, by the Recycling Council of Ontario (RCO) for outstanding achievement in environmental protection during the previous year. Eddy Specialty Papers also received an award in 1998 and in 1999 for reducing its waste.

At our paper mills, we're evaluating the additives used in paper production and working with suppliers to find more environmentally friendly substitutes. For instance, Domtar and its suppliers have eliminated 90% of the nonyl phenol ethoxylates (NPE) used in the manufacturing process. Our goal is to eliminate them completely. Similarly, the Espanola facility replaced chlorine in one of its bleaching processes with ozone, which has a far lower environmental impact.

The Corporation also worked hard at reducing greenhouse gas emissions. In 1999, we received a silver award from the Voluntary Challenge & Registry Corporation for reporting our efforts in this area.

In promoting sustainable development, and by participating in the VCR Voluntary Program, Domtar aims at increasing the energy efficiency of its manufacturing processes and favouring the replacement of fossil fuels by renewable energy sources such as wood residues.

Books for kids

"I was chatting with some schoolteachers, trying to keep warm during Montreal's 1998 ice storm," recalls Sophie Labrecque. "That's when the seed for The Gift of Reading was planted." With Sophie as director and Domtar CEO Raymond Royer as its tireless champion, The Gift of Reading recruited 15 partners and set to work. Its mission: distribute new books to underprivileged kids – and spark a lifelong love affair with reading. Sophie is seen here with spokesperson and author Jean-Claude Germain.

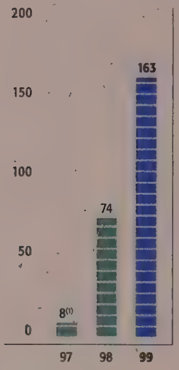
In the community: doing our share

Our Community Investment Policy supports projects in education, arts and culture; the environment and community leadership, with special emphasis on literacy. In 1999, Domtar allocated nearly $1 million to the community, and played a prominent role at the 1999 Salon du livre de Montréal, Québec's largest book fair. As part of the Gift of Reading project, initiated by the Québec Literacy Foundation and partners, companies and individuals were encouraged to buy books for distribution to underprivileged kids. By year-end, 1,460 books had been collected. And, once again in 1999, Domtar was part of the Canada-wide Literacy Awards, sponsored by Canada Post.

Financial Section

NET EARNINGS

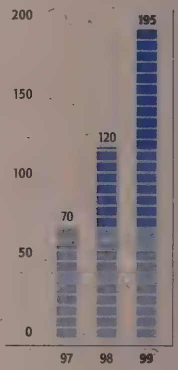
(In millions of $)



(1) Excludes a non-recurring $17-million after-tax gain realized on the contribution of Domtar's packaging net assets to Norampac.

QUALITY AND PRODUCTIVITY IMPROVEMENT PROGRAM(1)

(In millions of $)



(1) 1998 and 1999 figures represent cumulative improvements.

Management's Discussion and Analysis

Corporate Overview

In 1999, Domtar reported net earnings of $163 million ($0.87 per common share) compared to net earnings of $74 million ($0.44 per common share) in 1998 and achieved a 10% return on common shareholders' equity (ROE) compared to 5% ROE in 1998, moving it significantly closer to the goal of providing shareholders with a 15% ROE over a business cycle.

Profitability more than doubled in 1999, due mainly to the continued success of the Quality and Productivity Improvement Program and the inclusion of the results of E.B. Eddy Limited and E.B. Eddy Paper, Inc. ("E.B. Eddy") for the full year (versus only five months in 1998 as the acquisition was effective July 31, 1998).

Our Quality and Productivity Improvement Program consists of a series of initiatives designed to increase efficiencies by way of higher volume and improved customer/product mix and to reduce costs. It helps us to better address our customers' needs and remain profitable during down cycles.

Since its inception in 1997, this Program has generated profitability improvements of $195 million, net of inflation.

OPERATING RESULTS

Overview

Net sales in 1999 totalled $3,083 million, up $735 million, or 31%, from net sales of $2,348 million in 1998. This increase was mainly due to the full year inclusion of E.B. Eddy's sales compared to five months in 1998 as well as to higher shipments which resulted mainly from improved machine efficiencies and new product development. Weaker prices in our main segment of activity, Papers, were offset by higher average selling prices in the Wood and Packaging (Norampac) segments.

In order to better understand the impact of fluctuations in the selling prices of Domtar's products, a price index was developed that represents Domtar's key products. This allows us to better monitor our performance vis-à-vis our objective of achieving 15% ROE over a business cycle. The index is based on benchmark prices in U.S.$ for some of our products (taken from publicly available sources) weighted for production volumes. Transaction prices may vary slightly from these benchmarks but they represent a good indication of the market.

As seen in the graph, 1996 is used as our base year because it represents a reasonable mid-cycle reference for Domtar's products. Therefore, 1996 is at 100% on the index.

Overall, 1999 is at 93% on the index which means that the average selling prices of our key products are approximately 7% below those in 1996 (the base year) or 4% when taking into account the positive fluctuations of the American dollar over Canadian currency. Despite a decrease in selling prices from 1996 to 1999, offset by a favourable foreign exchange effective rate, Domtar's ROE improved from 2% in 1996 to 10% in 1999, mainly due to the acquisition of E.B. Eddy and the $195 million profitability improvement generated from the Quality and Productivity Improvement Program.

Cost of sales increased by $478 million, or 26%, in 1999 compared to 1998, due to the full year inclusion of E.B. Eddy, higher shipments and higher costs of purchased secondary fibre. The impact of these increases was partially offset by operational improvements at all manufacturing facilities.

Amortization charge increased by $45 million, or 24%, in 1999 compared to 1998, primarily due to the full year inclusion of E.B. Eddy.

Selling, general and administrative expenses increased by $33 million, or 26% in 1999 compared to 1998, mainly because of the full year inclusion of E.B. Eddy as well as profit sharing payments resulting from better financial results.

As a result, in 1999, operating profit improved significantly to attain $379 million, compared to the $200 million achieved in 1998. This $179 million year-over-year improvement was attributable in great part to the inclusion of E.B. Eddy's operating profit for a full year in 1999 and to the results of our Quality and Productivity Improvement Program.

In order to make the year-over-year analysis more comparable, a pro forma 1998 operating profit ($274 million) was calculated assuming the acquisition of E.B. Eddy had taken place on January 1, 1998. As can be seen in the graph, on a pro forma basis, our Quality and Productivity Improvement Program generated $75 million, net of inflation. Although overall average selling prices for our products and the average U.S. dollar spot rate were practically unchanged year-over-year, we did benefit from a more favourable effective exchange rate in 1999 due to the positive year-over-year impact of our foreign exchange hedging program.

As a result of the above-mentioned factors, earnings before financing expenses, income taxes and amortization (EBITDA) increased significantly to $608 million in 1999 compared to $384 million in 1998.

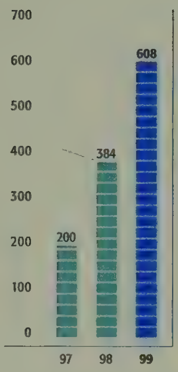
Operating Results

NET SALES

(In millions of $)

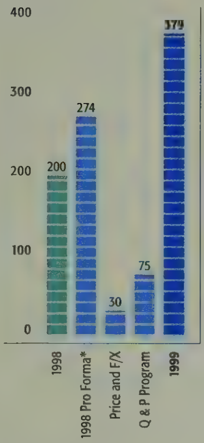
EBITDA

(In millions of $)



OPERATING PROFIT VARIANCE ANALYSIS

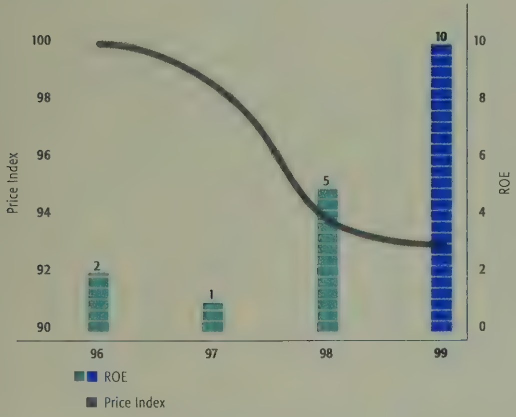
1999 vs 1998 (In millions of $)



* Includes E.B. Eddy for 12 months in 1998

IMPROVEMENT IN ROE VS PRICES OF DOMTAR PRODUCTS

(In %)



	1996	1997	1998	**1999**	Variation 1999 vs 1996
Price					
Copy 20 lb (US$/ton)	848	769	780	**778**	-8%
Offset 50 lb (US$/ton)	736	756	666	**659**	-10%
CFS #3 60 lb rolls (US$/ton)	943	941	909	**851**	-10%
Pulp NBSK (US$/tonne)	586	588	544	**541**	-8%
Lumber 2x4x8 (US$/MFBM)	403	383	376	**390**	-3%
Linerboard 42 lb (US$/ton)	371	336	373	**400**	+8%

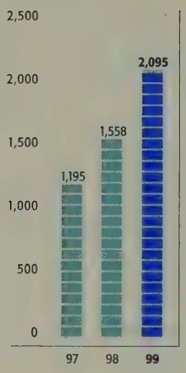
Source: Pulp & Paper Week & Random Lengths – Lumber Market Report (weekly)

					Total
Quality and Productivity Improvement Program (In millions of $)		70	50	**75**	**195**
U.S. dollar exchange rate (after hedging)	1.364	1.376	1.419	**1.455**	

Papers

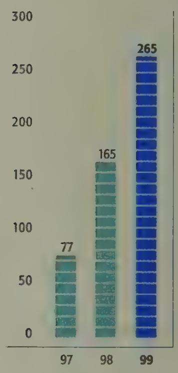
NET SALES

(In millions of $)

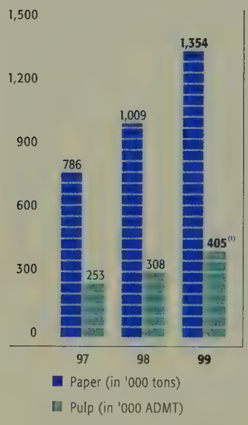


OPERATING PROFIT

(In millions of $)



SHIPMENTS



(1) If we subtract from these shipments our external purchases of pulp (140 ADMT), we obtain our net pulp position (market pulp) of 265 ADMT.

PAPERS

Sales, Shipments and Operating Profit

Combined net sales of paper and pulp amounted to $2,095 million, an increase of $537 million, or 34%, compared to 1998. This increase was due to increased shipments, primarily due to the full year inclusion of E.B. Eddy shipments, partially offset by lower selling prices. More specifically, overall paper and pulp shipments increased by 34% and 31%, respectively, compared to 1998.

Operating profit for the Papers segment amounted to $265 million compared to $165 million in 1998, or $244 million on a pro forma basis for a full year of E.B. Eddy. Despite being negatively impacted by lower paper prices, the Papers segment, in general, was able to increase its profitability in 1999 by achieving a notable $46 million improvement, net of inflation, in operating profit from the Quality and Productivity Improvement Program. This improvement was partly attributable to the introduction of an enterprise-wide procurement initiative.

Pricing Environment

A difficult pricing environment prevailed at the beginning of the year in the Communication Papers Division. However, the average transaction prices for 50 lb offset rolls and 20 lb copy were relatively unchanged compared to 1998 since strong demand allowed the Division to implement price increases in the latter part of the year.

In the Eddy Specialty Papers Division, pressure on selling prices was at its highest during the first half of the year, particularly with respect to the pricing of coated grades, as evidenced by benchmark grade No. 3 60 lb rolls which decreased by 6% on average in 1999 compared to 1998. This resulted mainly from high levels of imported coated papers impacting the North American market as well as reduced demand in Asia.

The price for market pulp hit its trough during the first quarter of 1999 due mostly to the contraction in demand resulting from the Asian crisis. As the year advanced, a rebound in demand, combined with a slight decrease in North American capacity, contributed to improved selling prices. Overall, the average transaction price of Northern Bleached Softwood Kraft (NBSK) pulp remained unchanged compared to 1998, while Northern Bleached Hardwood Kraft (NBHK) pulp increased by 5%.

Production Efficiency

In the Communication Papers Division, efforts to improve cost competitiveness continued as further production efficiencies and cost reductions were achieved at the Windsor, Cornwall and St. Catharines facilities in 1999. In the Eddy Specialty Papers Division, the rebuild of the # 14 paper machine at the Ottawa-Hull mill, which was completed in the first quarter of 1999, resulted in improved quality and productivity.

The Lebel-sur-Quévillon pulp mill continued to benefit from prior strategic capital investments and implementation of best practices, as evidenced by the cost reductions achieved at the mill. The pulp mill achieved a significant turnaround in profitability in 1999. The Espanola pulp mill continued to benefit from the significant strategic capital investments made over the last few years to modernize its hardwood pulp line. A hardwood chip storage and reclaim system was completed in 1999 and should generate additional benefits from marketing single species premium maple, birch and aspen pulps.

Wood

Sales, Shipments and Operating Profit

Net sales in the Wood segment amounted to $535 million, an increase of $179 million, or 50%, compared to 1998. This increase was due to the full year inclusion of E.B. Eddy sales, increased lumber shipments, as well as higher selling prices for lumber.

Operating profit increased by $45 million, a seven-fold improvement compared to 1998 due to the increase in sales and from the $15 million, net of inflation, generated from our Quality and Productivity Improvement Program, particularly with respect to increased throughput and better customer/product mix.

Pricing Environment

Overall, market conditions for softwood lumber improved from the weak conditions experienced in 1998 as the U.S. economy grew at a strong pace during 1999 and housing starts maintained their strong levels. The average transaction prices for Great Lakes 2x4 Kiln Dried studs and random lengths increased by 1% and 5%, respectively, compared to 1998.

Production Efficiency

During the last year, the Wood Products Division made substantial progress as a result of work-reorganization projects that had begun in 1998. More than 30 workshops were held at numerous sawmills, with the goal of initiating new operating procedures that will help improve profitability. Implementation of improved working methods will be intensified throughout Domtar's sawmills in 2000.

The Wood Products Division increased its softwood lumber recovery rate by 11% in 1999, thereby ensuring a more efficient use of resources and better quality products.

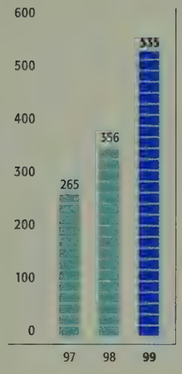
In 1999, the Forest Resources Division reaffirmed its commitment to delivering recently harvested round wood to sawmills and pulp mills, thereby reducing its inventories by 20%.

In addition, species sorting, which had begun in 1998, gained momentum during the year. Logs and chips were segregated to maximize fibre use, ensuring better quality and improved profitability.

Wood

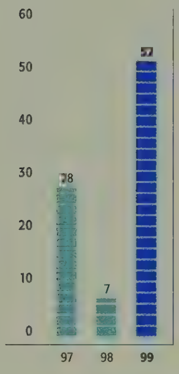
NET SALES

(In millions of $)



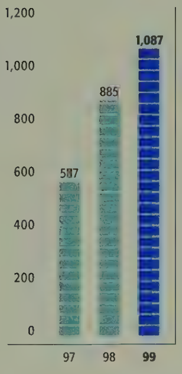
OPERATING PROFIT

(In millions of $)



SHIPMENTS

(In millions of FBM)



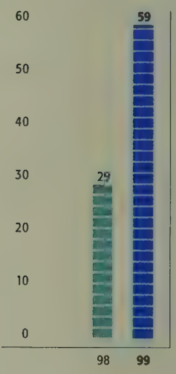
Packaging (Norampac)

NET SALES

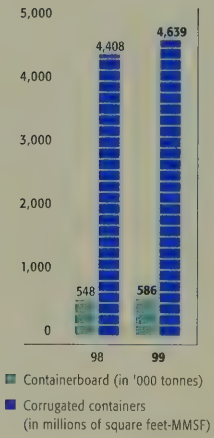
(In millions of $)

OPERATING PROFIT

(In millions of $)



SHIPMENTS



PACKAGING (NORAMPAC)

Sales, Shipments and Operating Profit

Domtar's 50% share of the net sales of Norampac Inc. (a 50 – 50 joint venture managed by Cascades Inc.) amounted to $453 million, an increase of $19 million, or 4%, compared to 1998. This was primarily due to an increase in both containerboard and corrugated container shipments, as well as by higher selling prices.

Domtar's share of Norampac's operating profit more than doubled to $59 million, compared to $29 million in 1998. This notable improvement is largely due to higher average selling prices for linerboard, partially offset by the higher cost of purchased secondary fibre. Synergies, that continue to be realized as a result of the integration of the two packaging businesses of Domtar and Cascades, as well as improved operational efficiencies, contributed $11 million, net of inflation.

Pricing Environment

Capacity closures by the majority of industry participants in late 1998 and in early 1999, combined with strong demand, helped rebalance the containerboard market and set the stage for price increases during the year. Overall, the average containerboard transaction price increased by 10% compared to 1998. The selling prices for corrugated containers followed the improving trend of the containerboard market.

The cost of purchased secondary fibre (or old corrugated containers) averaged U.S.$60/ton in 1999, compared to U.S.$50/ton in 1998.

Production Efficiency

During the year, several of Norampac's mills set production and profitability records. In addition, Norampac increased productivity by 10% and continued to reduce costs and improve its customer / product mix.

OTHER EXPENSES

Financing expenses

During 1999, financing expenses, net of interest income, were $111 million, a $20-million increase compared to 1998, primarily as a result of higher interest charges resulting from a full year of financing the E.B. Eddy acquisition. It should be noted that while our credit facilities have floating interest rates, the remainder (approximately 75%) of our debt has fixed rates, shielding Domtar in large part against the effect of increases in interest rates.

Income taxes and other levies

The income tax expense of $111 million for 1999 represents an effective tax rate of 40.7% compared to 36.8% in 1998. The increase in the tax rate is due to the full year inclusion of the non-deductible amortization of the asset revaluation arising from the E.B. Eddy acquisition. In addition, the tax rate was lower in 1998 due to the tax differential resulting from the relative impact of the drawdown of the deferred tax liability.

Domtar is also subject to various other taxes and government levies amounting to $122 million in 1999, excluding Norampac, which comprise, among other things, payroll, municipal and school taxes and stumpage fees.

LIQUIDITY AND CAPITAL RESOURCES

In 1999, Domtar retroactively adopted new accounting standards with respect to the statement of cash flows. Consequently, investments and financing operations that did not require the use of cash or cash equivalents were excluded from the statement of cash flows.

In 1999, we generated cash flows from operating activities of $326 million, a 31% increase over the amount generated in 1998. The increase was mainly due to improved operating results, as described in the previous section.

Capital expenditures amounted to $214 million in 1999, essentially at the same level as in 1998. Since depreciation expense amounted to $229 million in 1999, we respected our policy of limiting capital expenditures to annual depreciation.

Free cash flow (cash flows from operating activities less capital expenditures) in 1999 totalled $112 million compared to $36 million in 1998. The net impact of improved operating results, combined with a stable level of capital spending explains the $76-million, or 211%, improvement in free cash flow.

In January 1999, we reduced the size of the existing revolving credit facility from $400 million to $350 million concurrently with the signing of a new $250 million revolving credit facility. The new $250 million revolving credit facility replaced the non-revolving six-month term loan of $275 million that had been used to finance the acquisition of E.B. Eddy in July 1998.

During 1999, we fully repaid the outstanding balance of the 11 3/4% Notes for $26 million and reduced borrowings under our revolving credit facility by $35 million. During 1999, we also redeemed all issued and outstanding Series B and Series F preferred shares for a total consideration of $32 million, and repurchased 368,900 outstanding common shares for a total consideration of $6 million.

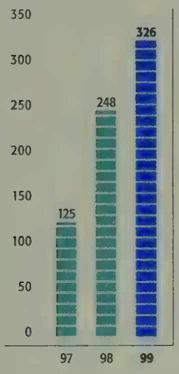
As at December 31, 1999, our net debt-to-total-capitalization ratio was 37%, compared to 41% at the end of 1998. In addition, our total long-term debt and bank borrowings, including our 50% share of the indebtedness of Norampac ($202 million), net of cash, was $1,063 million compared to $1,196 million on the same date in 1998. The decrease is primarily due to the repayment of the debt, as described earlier, as well as the impact of the year-end exchange rate used in translating our outstanding U.S.$ denominated debt. As at December 31, 1999, $241 million of our $600 million revolving credit facilities were drawn and letters of credit totalling $10 million were outstanding. On the same date in 1998, $284 million of our $675-million bank credit facilities were drawn and letters of credit totalling $18 million were outstanding.

In 1999, Domtar's improved financial performance resulted in its U.S. credit ratings being re-established at Investment Grade by both Moody's and Standard & Poor's.

Liquidity and Capital Resources

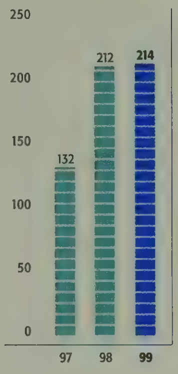
CASH FLOWS FROM OPERATING ACTIVITIES

(In millions of $)



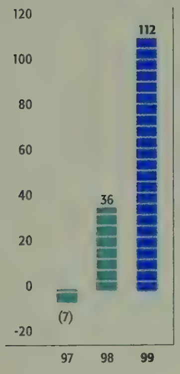
CAPITAL EXPENDITURES

(In millions of $)



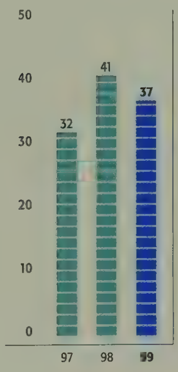
FREE CASH FLOW

(In millions of $)

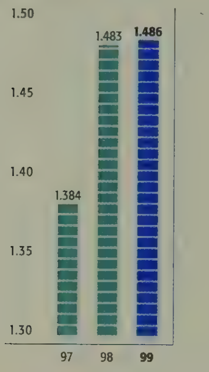


NET DEBT-TO-TOTAL-CAPITALIZATION

(In %)

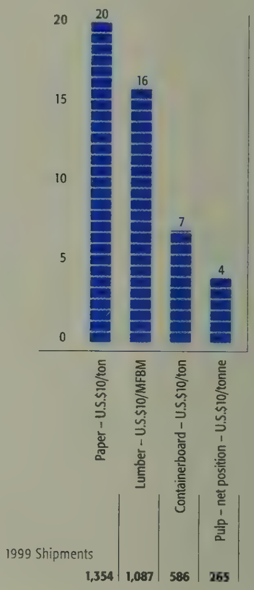


VARIATION IN THE VALUE OF THE CANADIAN DOLLAR RELATIVE TO THE U.S. DOLLAR



IMPACT ON OPERATING RESULTS

(In millions of Canadian $)



Risk and Opportunities

Foreign exchange risk and management

Because Domtar's principal products are sold in the United States in U.S. dollars, or sold in Canada at prices which are determined by reference to the delivered prices of its U.S. competitors' products, any increase/decrease in the value of the Canadian dollar relative to the U.S. dollar reduces/increases the amount of Canadian dollar revenues realized by Domtar on sales of its products. We estimate that a one-cent change in the Canadian dollar value of U.S.$1.00 would affect the value of Domtar's net U.S. dollar cash inflows by approximately $12 million annually, based on 1999 year-end prices, before taking into account any effect of hedging instruments. In 1999, the U.S. dollar spot rate averaged $1.486 Canadian, compared to an average of $1.483 Canadian for 1998.

We hedge the value of a portion of Domtar's future U.S. dollar cash inflows (less expenditures) for periods of up to three years, in order to reduce the potential negative effect of a strengthening Canadian dollar. This policy has been approved by the Board of Directors. Domtar's hedging arrangements as at December 31, 1999, which are detailed in Note 12 to the Consolidated Financial Statements, would protect the value of part of Domtar's expected net U.S. dollar cash inflows at an average exchange rate of $1.45 Canadian for the next three years.

Environmental matters

Domtar is subject to environmental laws and regulations imposed by federal, provincial (state) and local authorities in Canada and in the United States. In 1999 and 1998, we made capital expenditures of $12 million and $11 million, respectively, mostly in order to further improve the quality of air emissions from our operations.

Under its Care and Control Program, Domtar is continuing to take remedial action at a number of former operating sites relative to possible soil, sediment or groundwater contamination. As at December 31, 1999, Domtar had a provision of $45 million for known and determinable site rehabilitation costs, primarily in connection with its former wood preserving and gypsum businesses. Furthermore, Domtar is party to some environmental claims, actions, charges and lawsuits which are being contested. The process of investigation and remediation can be lengthy and is subject to the uncertainties of changing legal requirements, developing technologies and the allocation of liability among potentially responsible parties.

Sensitivity analysis

Domtar's operating results are sensitive, among other things, to fluctuations in the prices of certain products. The graph presents the estimated annual impact on operating results of a U.S.$10-per-unit fluctuation in prices of selected products sold by Domtar and Norampac, at an average exchange rate of $1.43 for U.S.$1.00 and based on 1999 total shipment levels. We believe that the impact on operating profit illustrated is mitigated by the fact that there are different price sensitivities within each product group. For example, some Eddy Specialty Papers Division's products are less affected by market fluctuations than most papers from the Communication Papers Division (see also price index on page 24).

A Smooth Transition to the New Millennium

The Y2K rollover went very smoothly with no impact on Domtar's operations and no reported problems from its customers and suppliers.

All business units will continue the monitoring of systems and electronic devices as we are still early in the process. Contingency and action plans will be maintained to remedy unforeseen events which could occur during the coming months.

Impact of Accounting Pronouncements Not Yet Implemented

For the fiscal year beginning in 2000, Domtar is required to adopt two new accounting standards concerning accounting for income taxes and employee future benefits. Domtar has not yet determined the method of adoption of the standards it will use. Had the standards been implemented on a retroactive basis on January 1, 1999, it is estimated that the December 31, 1999 balances of Shareholders' equity would have decreased by approximately $205 million, Deferred income taxes would have increased by approximately $50 million and Other liabilities would have increased by approximately $155 million. This would have resulted in a net-debt-to-total-capitalization ratio of 40% as at December 31, 1999, compared to 37% as reported.

Outlook for 2000

The year 2000 is expected to be favourable for the forest industry. Strong growth for all major economic regions is anticipated by most forecasters. Within this environment of improving demand, there are limited increases of capacity by industry participants. Product price increases for pulp, paper and packaging products have recently been achieved and the prospect for further increases appear favourable. However, pricing for lumber is expected to be under some pressure.

In 2000, our Quality and Productivity Improvement Program is expected to continue to improve our competitive position. Further improvements and cost reductions are estimated in all our segments to total approximately $36 millions, net of inflation.

Subsequent to the E.B. Eddy acquisition in 1998, which was financed with a combination of debt and equity, Domtar has added to its financial flexibility by retiring both debt and preferred shares in 1999. Further debt repayment is expected in 2000 which should allow consideration of other growth opportunities.

We will only consider such strategic initiatives if superior value is created for shareholders and provided a prudent financial structure is maintained.

1998 COMPARED TO 1997

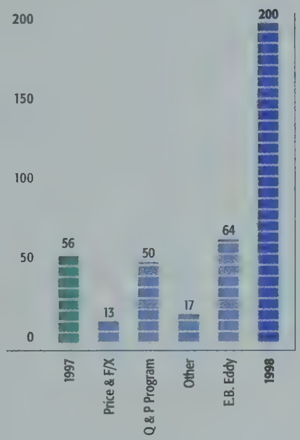
Overview

In 1998, Domtar reported net earnings of $74 million ($0.44 per common share) compared to net earnings of $25 million ($0.15 per common share) in 1997. Net earnings in 1997 included a $17-million after-tax gain realized on the contribution of Domtar's packaging net assets to Norampac effective December 30, 1997.

OPERATING PROFIT VARIANCE ANALYSIS

1998 vs 1997

(In millions of $)



Operating results

Net sales in 1998 totalled $2,348 million, up $410 million, or 21%, from 1997 net sales of $1,938 million. This increase was mainly due to the inclusion of E.B. Eddy's sales for five months and by higher shipments and a more favourable U.S. exchange rate. It was partially offset, however, by lower selling prices in 1998 when compared to 1997.

Cost of sales increased by $220 million in 1998 compared to 1997, due to E.B. Eddy and higher shipments, partially offset by operational improvements at all our manufacturing facilities, and lower costs of purchased secondary fibre.

Amortization charge increased by $40 million in 1998 compared to 1997, due to E.B. Eddy and the Lebel-sur-Quévillon pulp mill.

Selling, general and administrative expenses increased by $6 million in 1998 compared to 1997, primarily due to E.B. Eddy and Norampac.

In 1998, our operating profit amounted to $200 million, a significant improvement when compared to the $56 million achieved in 1997. This $144-million year-over-year improvement was attributable in great part to the $64-million generated by E.B. Eddy for the five-month period and to the $50-million increase in operating profit that resulted from our Quality and Productivity Improvement Program.

As a result of the above-mentioned factors, earnings before financing expenses, income taxes and amortization (EBITDA) were $384 million in 1998 compared to $200 million in 1997.

Papers

Sales, Shipments and Operating Profit

Combined net sales of paper and pulp amounted to $1,558 million in 1998, an increase of $363 million, or 30%, compared to 1997. This increase was due to the five-month inclusion of E.B. Eddy sales as well as to increased shipments and a more favourable U.S. exchange rate, partially offset by lower selling prices.

Excluding E.B. Eddy's shipments, overall paper shipments increased by 3% and pulp shipments increased by 6% compared to 1997.

Operating profit for 1998 amounted to $165 million, an increase of $88 million, or 114%, compared to 1997, mainly as a result of the above-mentioned factors as well as from the impact of our Quality and Productivity Improvement Program, partially offset by a higher amortization charge.

Pricing Environment

Market conditions for papers remained relatively favourable through the first quarter of 1998, as evidenced by the partial implementation of price increases for both copy and offset papers. During the remainder of 1998, supply of uncoated freesheet fine papers in North America increased relative to demand, due to industry capacity additions and to the continued difficulties experienced in the Asian markets, applying downward pressure to North American prices. Overall, the transaction price of 50 lb offset rolls decreased by 7% on average in 1998 compared to 1997, while the 20 lb copy paper transaction price increased by 2% on average.

Pricing for NBSK pulp remained under pressure throughout 1998. Relatively weak demand for paper translated into a surplus of pulp on the market and a gradual decline in pulp prices. Overall, the 1998 average transaction price of NBSK pulp decreased by 9% compared to 1997.

1998 COMPARED TO 1997 (CONTINUED)

Wood

Sales, Shipments and Operating Profit

Net sales in the Wood segment amounted to $356 million, an increase of $91 million, or 34%, compared to 1997, primarily due to increased lumber shipments, a more favourable U.S. exchange rate and the inclusion of E.B. Eddy sales for five months. Operating profit decreased, however, by $21 million compared to 1997 due to lower selling prices for lumber and higher quota penalties, which more than offset the more favourable U.S. exchange rate, higher shipments and the inclusion of E.B. Eddy's results.

Pricing Environment

Despite strong demand in the North American markets, overall market conditions for softwood lumber weakened in 1998, as volumes previously exported were repatriated into North America due to weak Japanese and other Asian markets. Overall, the 1998 average transaction prices for Great Lakes 2x4 Kiln Dried studs and random lengths decreased 3% and 16%, respectively, compared to 1997.

Packaging (Norampac)

Sales, Shipments and Operating Profit

Domtar's 50% share of Norampac's net sales amounted to $434 million, a decrease of $44 million, or 9%, compared to 1997 net sales for Domtar's previous packaging operations. This was primarily due to a change in product mix and a decrease in containerboard shipments resulting from voluntary downtime, partially offset by higher selling prices and a more favourable U.S. exchange rate.

Domtar's share of Norampac's operating profit for 1998 amounted to $29 million compared to an operating loss of $44 million in 1997 for Domtar's previous packaging operations. This notable $73 million improvement was largely due to the positive impact of the synergies realized from the integration of the two packaging businesses, higher average selling prices for linerboard, a more favourable U.S. exchange rate and lower cost of purchased secondary fibre. The cost of old corrugated containers averaged U.S.$50/ton in 1998, compared to U.S.$72/ton in 1997.

Pricing Environment

Overall, the 1998 average containerboard transaction price increased by 7% compared to the record lows experienced in 1997. The selling prices for corrugated containers followed the improving trend of the containerboard market, with the majority of the price increases realized in the first half of 1998.

Financing expenses

During 1998, financing expenses charged against earnings, net of interest income, were $91 million, a $41-million increase compared to 1997, primarily as a result of interest charges on Domtar's share of Norampac debt, higher interest charges resulting from the E.B. Eddy acquisition as well as from lower capitalized interest. These were partially offset by higher income earned on short-term investments prior to the acquisition.

Income taxes and other levies

The income tax expenses of $42 million for 1998 represented an effective tax rate of 36.8% compared to 25.8% in 1997. The lower tax rate in 1997 was primarily due to the relative impact of the drawdown of the deferred tax liability and the tax on large corporations.

Domtar was also subject to various other taxes and government levies amounting to $90 million in 1998, excluding Norampac, which comprised, among other things, payroll, municipal and school taxes and stumpage fees.

Economic Value Added (EVA®)

In addition to using Return on Equity as an important financial metric, Domtar also uses EVA® to ensure that its decision-making processes are aligned with the objective of increasing shareholder value. EVA® is used at Domtar to measure performance and to evaluate investment decisions.

EVA® is positive when a company's net after-tax operating profit exceeds a capital charge representing the return expected by the providers of the company's capital. Domtar reviews its cost of capital annually, based on changes in the financial markets.

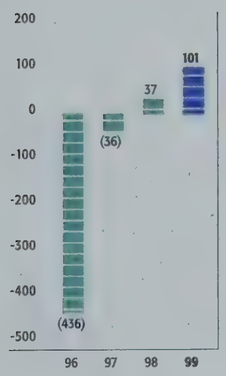
Domtar's EVA® for 1999 improved by $101 million, from $119 million negative to $18 million negative, due primarily to stronger earnings. In addition, the cost of capital in 1999 was lower, mainly because of a lower long-term cost of funds.

Domtar remains committed to creating long-term shareholder value and will continue to emphasize its efforts in 2000, especially in areas under its control such as the Quality and Productivity Improvement Program and capital management.

EVA® is a registered trademark of Stern Stewart & Co.

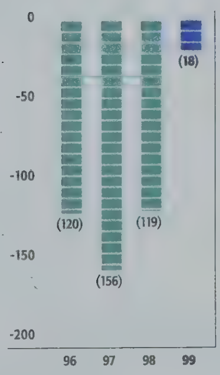
IMPROVEMENT IN EVA®

(In millions of $)



EVA®

(In millions of $)



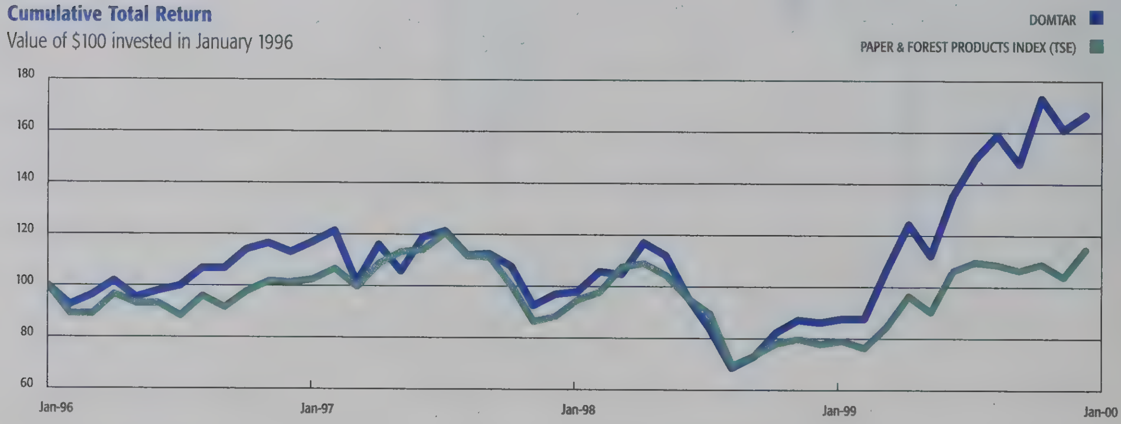
Common Stock Prices

Quarterly share prices for the common shares of Domtar during 1999 and 1998 were as follows:

	1st	2nd	3rd	4th
	$	$	$	$
1999				
Market price				
Toronto Stock Exchange				
High	**11.65**	**14.00**	**17.90**	**18.75**
Low	**8.60**	**10.85**	**13.05**	**14.75**
New York Stock Exchange (U.S.$)				
High	**7.69**	**9.50**	**12.00**	**12.81**
Low	**5.69**	**7.13**	**8.94**	**9.94**
1998				
Market price				
Toronto Stock Exchange				
High	11.30	12.70	9.85	9.75
Low	8.35	9.65	6.80	7.10
New York Stock Exchange (U.S.$)				
High	8.00	8.94	6.69	6.31
Low	5.81	6.50	4.44	4.50

Cumulative Total Return

Value of $100 invested in January 1996



Management's Statement of Responsibility

The consolidated financial statements contained in this Annual Report are the responsibility of management and have been prepared in accordance with generally accepted accounting principles in Canada. Where necessary, management has made informed judgements and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data included in the financial statements.

To discharge its responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Corporation's external auditors are responsible for auditing the financial statements and giving an opinion thereon. In addition, the Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors carries out its responsibility relative to the consolidated financial statements principally through its Audit Committee, consisting solely of outside directors, which reviews the financial statements and reports thereon to the Board. The Committee meets periodically with the external auditors, internal auditors and management to review their respective activities and the discharge of each of their responsibilities. Both the external auditors and the internal auditors have free access to the Committee, with or without management, to discuss the scope of their audits, the adequacy of the system of internal controls and the adequacy of financial reporting.

Raymond Royer
President and Chief Executive Officer

Christian Dubé
Senior Vice-President and Chief Financial Officer

Montréal, Québec
January 20, 2000

Auditors' Report

To the Shareholders of Domtar Inc.

We have audited the consolidated balance sheets of Domtar Inc. as at December 31, 1999 and 1998 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended December 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Domtar Inc. as at December 31, 1999 and 1998 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1999 in accordance with generally accepted accounting principles in Canada.

PricewaterhouseCoopers LLP
Chartered Accountants

Raymond Chabot Grant Thornton
General Partnership
Chartered Accountants

Montréal, Québec
January 20, 2000

Consolidated Earnings

Year ended December 31

(In millions of Canadian dollars, except per share amounts)

	1999	1998	1997
	$	$	$
Net sales	**3,083**	2,348	1,938
Operating expenses			
Cost of sales	**2,313**	1,835	1,615
Selling, general and administrative	**162**	129	123
Amortization	**229**	184	144
	2,704	2,148	1,882
Operating profit	**379**	200	56
Financing expenses *(Note 3)*	**111**	91	50
Gain on contribution to Norampac, including amortization of deferred gain *(Note 14)*	**(5)**	(5)	(25)
Earnings before income taxes and non-controlling interest	**273**	114	31
Income taxes *(Note 4)*	**111**	42	8
Earnings before non-controlling interest	**162**	72	23
Non-controlling interest *(Note 2)*	**(1)**	(2)	(2)
Net earnings	**163**	74	25
Dividend requirements of preferred shares	**3**	3	2
Net earnings applicable to common shares	**160**	71	23

	$	$	$
Per common share *(Note 11)*			
Net earnings			
Basic	**0.87**	0.44	0.15
Fully diluted	**0.86**	0.42	*

** No dilution*

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

December 31
(In millions of Canadian dollars)

	1999	1998
	$	$
Assets		
Current assets		
Cash	3	9
Receivables, net of allowance for doubtful accounts of $13 (1998 - $12)	388	322
Inventories *(Note 5)*	436	453
Prepaid expenses	19	13
	846	797
Investments and advances	29	47
Property, plant and equipment *(Note 6)*	2,969	3,000
Other assets *(Note 7)*	175	186
	4,019	4,030
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	48	31
Trade and other payables *(Note 8)*	504	553
Income and taxes payable	39	61
Long-term debt due within one year *(Note 9)*	24	49
	615	694
Long-term debt *(Note 9)*	1,030	1,147
Deferred credits	100	106
Deferred income taxes *(Note 4)*	376	269
Other liabilities	107	123
Non-controlling interest *(Note 2)*	–	3
Commitments and contingencies *(Note 10)*		
Shareholders' equity		
Preferred shares *(Note 11)*	54	87
Common shares *(Note 11)*	1,234	1,226
Retained earnings	504	373
Accumulated foreign currency translation adjustments *(Note 13)*	(1)	2
	1,791	1,688
	4,019	4,030

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board:

Jacques Girard, Director

Raymond Royer, Director

Consolidated Cash Flows

Year ended December 31
(In millions of Canadian dollars)

	1999	1998	1997
	$	$	$
Operating activities			
Net earnings	**163**	74	25
Non-cash items:			
Amortization	**229**	184	144
Deferred income taxes	**99**	1	2
Gain on contribution to Norampac, including amortization of deferred gain *(Note 14)*	**(5)**	(5)	(25)
Other	**1**	–	(5)
	487	254	141
Changes in non-cash working capital items *(Note 15)*	**(161)**	(6)	(16)
Cash flows from operating activities	**326**	248	125
Investing activities			
Additions to property, plant and equipment	**(214)**	(212)	(132)
Disposal of property, plant and equipment	**13**	7	2
Acquisition of E.B. Eddy, including bank indebtedness assumed of $16 *(Note 2)*	**–**	(456)	–
Consideration received upon contribution to Norampac, net of share of Norampac's bank indebtedness of $15 *(Note 14)*	**–**	–	285
Receipt of advances	**16**	2	1
Acquisition of shares held by a non-controlling shareholder in a subsidiary *(Note 2)*	**(9)**	–	–
Other	**7**	(4)	(17)
Cash flows from investing activities	**(187)**	(663)	139
Financing activities			
Dividend payments	**(28)**	(25)	(23)
Change in bank indebtedness	**17**	(4)	15
Change in revolving bank credit, net of expenses	**198**	3	–
Issuance of long-term debt, net of expenses	**–**	676	–
Repayment of long-term debt	**(305)**	(479)	(4)
Issuance of common shares and repurchases, net of expenses *(Note 11)*	**5**	(18)	(10)
Redemption of preferred shares	**(32)**	(12)	(3)
Cash flows from financing activities	**(145)**	141	(25)
Net increase (decrease) in cash and cash equivalents	**(6)**	(274)	239
Cash and cash equivalents at beginning of year	**9**	283	44
Cash and cash equivalents at end of year	**3**	9	283
Represented by:			
Cash	**3**	9	9
Short-term investments	**–**	–	274
	3	9	283

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Retained Earnings

Year ended December 31

(In millions of Canadian dollars)

	1999	1998	1997
	$	$	$
Retained earnings at beginning of year	**373**	333	337
Net earnings	**163**	74	25
Dividends on common shares	**(26)**	(23)	(21)
Dividends on preferred shares	**(3)**	(3)	(2)
Premium on purchase for cancellation of common shares	**(3)**	(8)	(6)
Retained earnings at end of year	**504**	373	333

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

1. Summary of significant Accounting Policies

The consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of Domtar, differ in certain respects from those in the United States as explained in Note 19.

Basis of consolidation

The consolidated financial statements include the accounts of Domtar Inc. (the Corporation) and all its subsidiaries and joint ventures (collectively, Domtar). Investments over which the Corporation exercises significant influence are accounted for by the equity method. The Corporation's interest in joint ventures is accounted for by the proportionate consolidation method.

Use of estimates

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

Translation of foreign currencies

For foreign subsidiaries which are considered financially and operationally self-sustaining, the current rate method of translation of foreign currencies is followed. Therefore, all gains and losses arising from the translation of the financial statements of these foreign subsidiaries are deferred in an "Accumulated foreign currency translation adjustments" account under "Shareholders' equity".

For foreign subsidiaries which are considered financially and operationally integrated, the temporal method of translation of foreign currencies is followed. Therefore, all gains and losses arising from the translation of the financial statements of these foreign subsidiaries are included in Selling, general and administrative expenses.

Gains and losses resulting from the translation of foreign currency transactions are included in earnings, except for those on long-term debt denominated in foreign currency. For such debt designated as a hedge of the net investment in self-sustaining foreign subsidiaries, exchange gains and losses are included in the "Accumulated foreign currency translation adjustments" account. For the remaining long-term debt denominated in foreign currency, exchange gains and losses are deferred and amortized over the remaining term of the related obligation.

The Corporation manages its foreign exchange exposure on anticipated cash inflows in U.S. dollar through the use of options and forward contracts. Resulting gains and losses are recognized when realized and are included in sales. The cost of options is amortized over the hedging period and is also included in sales.

Short-term investments

Short-term investments are stated at the lower of cost and market value and include instruments with original maturities of less than three months.

Inventories

Inventories of operating and maintenance supplies and raw materials are valued at the lower of average cost and replacement cost. Work in process and finished goods are valued at the lower of average cost and net realizable value and include the cost of raw materials, direct labor and manufacturing overhead expenses.

Property, plant and equipment

Property, plant and equipment are stated at cost. Interest costs are capitalized on additions to property, plant and equipment which are in excess of $10 million and for which the period of construction exceeds one year. The interest rate used is equal to the weighted average of the effective interest rates on long-term debt.

For timber limits and timberlands, amortization is provided on the unit of production method. For all other assets, amortization is provided on the straight-line method using rates based on the estimated useful lives of the assets, which are generally as follows:

Buildings	Up to 40 years
Machinery and equipment	Up to 20 years

The amortization expense is reported net of the amount of the amortization of deferred credits related to government grants and investment tax credits. No amortization is recorded on assets under construction.

Other assets

Other assets are recorded at cost. Expenses related to the issuance of long-term debt are deferred and amortized on a straight-line basis over the term of the related obligation. Goodwill and other assets, if applicable, are amortized on a straight-line basis over periods not exceeding twenty-five years. The Corporation assesses at each balance sheet date whether there has been a permanent impairment in the value of goodwill. This is accomplished mainly by determining whether projected undiscounted future cash flows from operations exceed the net book value of goodwill as of the assessment date.

Notes to Consolidated Financial Statements

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

1. Summary of significant Accounting Policies (continued)

Deferred credits

Deferred credits comprise government grants and investment tax credits obtained upon the acquisition of property, plant and equipment, net interest rate hedging gains on long-term debt and the deferred gain on the contribution of net assets to Norampac. Government grants and investment tax credits are amortized on the same basis as the related property, plant and equipment, while net interest rate hedging gains are amortized on a straight-line basis over the term of the related debt. The deferred gain on the contribution of net assets to Norampac is amortized on a straight-line basis over 15 years. Deferred credits are reported net of accumulated amortization.

Environmental costs

Environmental expenditures, including site restoration costs, are expensed or capitalized depending upon their future economic benefit. Expenditures which prevent future environmental contamination are capitalized and amortized on a straight-line basis over a 15-year period. Expenditures that relate to an existing condition caused by past operations which do not contribute to current or future revenue generation are expensed. Liabilities are not discounted and are recorded when restoration efforts are likely to occur and the costs can be reasonably estimated.

Income taxes

The Corporation accounts for income taxes using the tax deferral method. Deferred income taxes result primarily from timing differences between the amortization claimed for income tax purposes and amounts recorded for financial statement purposes, and from the tax effect of losses carried forward.

The Corporation does not provide for income taxes on undistributed income of foreign subsidiaries as such income is being reinvested in foreign operations.

Stock-based compensation plans

The Corporation has stock-based compensation plans, which are described in Note 11. No compensation expense is recognized for these plans when shares or share options are issued to plan participants. Any consideration paid by plan participants on exercise of share options or purchase of shares is credited to stated capital.

2. Acquisitions

Acquisition of shares of Norkraft Quévillon Inc. held by a non-controlling shareholder

On December 16, 1999, Domtar acquired all of the issued and outstanding shares of Norkraft Quévillon Inc. not already held by Domtar for a cash consideration of $9 million. The acquisition has been accounted for using the purchase method.

Acquisition of E.B. Eddy

On July 31, 1998, Domtar acquired from George Weston Limited all of the issued and outstanding shares of its wholly-owned subsidiaries E.B. Eddy Limited and E.B. Eddy Paper, Inc. ("E.B. Eddy"), an integrated producer of specialty paper and wood products. The acquisition has been accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets and liabilities based on their estimated fair value as of the acquisition date. E.B. Eddy's results of operations have been included in the consolidated financial statements from the effective date of acquisition. Details of the acquisition at the effective date are as follows:

	$
Net assets acquired at assigned values:	
Assets acquired	
Operating working capital, including bank indebtedness assumed of $16	58
Fair value adjustments to working capital	(108)
Property, plant and equipment	1,027
Other assets	33
Liabilities assumed	
Long-term debt	(75)
Other long-term liabilities	(127)
	808
Consideration:	
Cash, including transaction fees	440
Common shares issued	368
	808

Notes to Consolidated Financial Statements

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

2. Acquisitions (continued)

To finance the cash portion of the acquisition and reimburse E.B. Eddy's debt, the Corporation borrowed $525 million from a syndicate of Canadian banks under a credit facility. The credit facility consisted of two non-revolving term loans in maximum amounts of $250 million and $275 million, respectively. The $250 million loan was repaid in September 1998.

To finance the balance of the acquisition cost, Domtar issued 35,714,286 common shares at the market price of $10.30 per share.

The purchase agreement includes a purchase price adjustment whereby, in the event of the acquisition by a third party of more than 50% of the shares of Domtar in specified circumstances, the Corporation may have to pay George Weston Limited up to a maximum of $120 million, an amount which will gradually decline over a pre-established period.

Assuming an effective date of January 1, 1997 for the E.B. Eddy acquisition, the pro forma consolidated results of operations of Domtar would have been the following for the year ended December 31:

	1998 (unaudited)	1997 (unaudited)
	$	$
Net sales	2,905	2,896
Net earnings	105	77
Earning per share		
Basic	0.55	0.40
Fully diluted	0.54	0.39

3. Financing expenses

	1999	1998	1997
	$	$	$
Interest on long-term debt	**104**	89	67
Amortization of deferred debt issue expenses and exchange losses	**8**	9	4
	112	98	71
Less: Income from short-term investments	**1**	6	1
Capitalized interest	**–**	1	20
	111	91	50

Cash payments for interest, net of interest income and amount capitalized, totalled $104 million in 1999 (1998 – $78 million; 1997 – $44 million)

4. Income taxes

	Canada			Foreign			Total		
	1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997
	$	$	$	**$**	$	$	**$**	$	$
Earnings before income taxes and non-controlling interest	**244**	84	22	**29**	30	9	**273**	114	31
Income taxes									
Current	**8**	35	4	**4**	6	2	**12**	41	6
Deferred	**96**	(2)	2	**3**	3	–	**99**	1	2
	104	33	6	**7**	9	2	**111**	42	8
Earnings before non-controlling interest	**140**	51	16	**22**	21	7	**162**	72	23

Notes to Consolidated Financial Statements

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

4. Income taxes (continued)

The components of deferred income taxes were as follows:

	1999	1998	1997
	$	$	$
Tax benefit of losses	**–**	(1)	(5)
Utilization of prior years' loss carryforwards	**18**	27	23
Difference between income tax allowance and accounting amortization of property, plant and equipment	**53**	(45)	(27)
Expenses deducted for income tax purposes and capitalized in the financial statements	**27**	17	7
Other	**1**	3	4
	99	1	2

Deferred tax assets and liabilities were as follows:

	1999	1998
	$	$
Deferred tax assets:		
Non-capital loss carryforwards	**61**	34
Investment tax credits and other deferred credits	**46**	26
Disallowed reserves	**58**	76
	165	136
Deferred tax liabilities:		
Difference between income tax and accounting amortization of property, plant and equipment	**(531)**	(393)
Other assets	**(10)**	(12)
	(541)	(405)
Deferred income taxes	**(376)**	(269)

The effective income tax rate differs from the Canadian statutory income tax rate. The principal factors causing these different income tax rates were as follows:

	1999	1998	1997
Statutory income tax rate	**41.9%**	42.0%	40.8%
Manufacturing and processing credit	**(6.4)**	(5.8)	(4.5)
Large corporation tax	**2.6**	5.5	12.9
Tax rate differential resulting from the drawdown of deferred taxes	**0.6**	(2.9)	(18.4)
Non-deductible amortization	**3.6**	1.9	–
Other	**(1.6)**	(3.9)	(5.0)
Effective income tax rate	**40.7%**	36.8%	25.8%

Cash payments for income taxes in 1999 amounted to $33 million (1998 – $18 million; 1997 – $8 million).

Notes to Consolidated Financial Statements

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

5. Inventories

	1999	1998
	$	$
Operating and maintenance supplies	**95**	92
Raw materials	**118**	137
Work in process and finished goods	**223**	224
	436	453

6. Property, plant and equipment

	1999			1998		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
	$	**$**	**$**	$	$	$
Buildings	**746**	**264**	**482**	732	242	490
Machinery and equipment	**3,498**	**1,177**	**2,321**	3,352	1,016	2,336
Timber limits and land	**181**	**15**	**166**	188	14	174
	4,425	**1,456**	**2,969**	4,272	1,272	3,000

7. Other assets

	1999			1998		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
	$	**$**	**$**	$	$	$
Exchange losses on translation of long-term debt	**26**	**11**	**15**	57	8	49
Debt issuance expenses	**29**	**12**	**17**	26	8	18
Accrued pension assets	**60**	**–**	**60**	37	–	37
Goodwill and other assets	**101**	**18**	**83**	98	16	82
	216	**41**	**175**	218	32	186

8. Trade and other payables

	1999	1998
	$	$
Trade accounts payable	**215**	212
Provision for business integration	**27**	45
Fair value of hedging contracts acquired	**14**	40
Accrued interest	**29**	31
Accrued vacation pay	**48**	45
Payables on capital projects	**23**	10
Other	**148**	170
	504	553

Notes to Consolidated Financial Statements

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

9. Long-term debt

	Maturity	1999	1998
		$	$
Domtar Inc.			
Unsecured debentures and notes			
10.35% Debentures	2006	**53**	57
10% Debentures	2011	**82**	82
10.85% Debentures	2017	**75**	75
11¾% Notes (1998 – U.S.$17)	1999	**–**	26
12% Notes (1999 and 1998 – U.S.$11)	2001	**16**	17
8¾% Notes (1999 and 1998 – U.S.$150)	2006	**217**	230
9½% Debentures (1999 and 1998 – U.S.$125)	2016	**180**	191
Unsecured revolving credit facility	2001	**229**	-
Secured term loan	1999	**–**	275
		852	953
Norampac Inc.			
Unsecured notes			
9.5% Notes (1999 et 1998 – U.S.$75)	2008	**108**	115
9.375% Notes	2008	**50**	50
Reducing revolving credit facility (secured)			
(1999 – U.S.$9 ; FF33 ; Cdn$13 ;			
1998 – U.S.$10 ; FF28 ; Cdn$45)	2003	**33**	67
Other		**11**	11
		202	243
		1,054	1,196
Less: Due within one year		**24**	49
		1,030	1,147

As at December 31, 1999, long-term debt repayments in each of the next five years amounted to:

2000	2001	2002	2003	2004
$	$	$	$	$
24	254	23	39	12

Domtar Inc.

The 10.35% debentures have sinking fund requirements. The 10% and 10.85% debentures each have purchase fund requirements, whereby the Corporation has undertaken to make all reasonable efforts to purchase quarterly, for cancellation, a portion of the aggregate principal amount of the debentures at prices not exceeding par.

As at December 31, 1999, the Corporation had revolving credit facilities of $350 million and $250 million. Both revolving credits expire in January 2001, are provided by the same group of financial institutions and allow for the Corporation to borrow the full amounts available on an unsecured basis.

The $350 million revolving credit facility bears interest at a rate based on the rate for bankers' acceptances for borrowings in Canadian dollars and on the LIBOR rate for borrowings in U.S. dollars. This margin may increase or decrease depending on Domtar's credit rating in the future. As at December 31, 1999, $12 million of borrowings in Canadian dollars were outstanding (1998 – $9 million) and included in bank indebtedness. In addition, as at December 31, 1999, the Corporation had outstanding letters of credit pursuant to this bank credit for an amount of $10 million (1998 – $18 million). In January 1999, the revolving line of credit was reduced from $400 million to $350 million concurrently with the negotiation of the $250 million revolving credit facility.

The $250 million revolving credit facility bears interest at a rate based on the rate for bankers' acceptances for borrowings in Canadian dollars and the LIBOR rate for borrowings in U.S. dollars. The $250 million revolving credit facility replaced in January 1999 a term loan of $275 million that was used to finance the acquisition of E.B. Eddy in July 1998. As at December 31, 1999, $229 million was outstanding under this credit facility.

Notes to Consolidated Financial Statements

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

9. Long-term debt (continued)

During 1999, the interest rates on outstanding borrowings under the revolving credit facilities ranged from 5.21% to 7.00% (1998 – 5.22% to 6.55%).

The indentures or agreements under which certain of the Corporation's debt was issued contain covenants, including a limitation on the amount of dividends on its shares that the Corporation may pay and on the amount of shares that it may repurchase for cancellation.

Norampac Inc.

As at December 31, 1999, Norampac and its subsidiaries had a credit agreement with a syndicate of banks with respect to a reducing revolving credit facility ($165 million; 1998 – $175 million) and a revolving credit facility ($150 million) (the "Bank Credit"). Borrowings under the Bank Credit are not guaranteed by the Corporation and are secured by the receivables and inventories of Norampac and its subsidiaries (except for the inventory of its French subsidiary) and by the property, plant and equipment of three of its Canadian containerboard mills. The terms of the Bank Credit also include certain financial covenants. Borrowings under the Bank Credit bear interest at base, prime or various money market instrument rates plus a margin determined by certain financial ratios attained by Norampac. During 1999, the interest rates on outstanding borrowings under the Bank Credit ranged from 4.06% to 7.59% (1998 – 4.09% to 7.75%).

In January 1998, Norampac issued unsecured notes for a total amount of $317 million, consisting of US$150 million and CDN$100 million, bearing interest at 9.5% and 9.375%, respectively. Proceeds from this issuance were mainly used to reimburse a $300-million acquisition term facility issued in December 1997. Domtar's share of the net proceeds from the issuance and reimbursement of the acquisition term facility amounted to $156 million and $150 million, respectively.

10. Commitments and contingencies

Environment

Domtar is subject to environmental laws and regulations enacted by federal, provincial, state and local authorities in Canada and in the United States. In 1999, Domtar made environmental capital expenditures of $12 million (1998 – $11 million; 1997 – $5 million) mostly for the improvement of air emissions. At this time, Domtar cannot estimate the additional capital expenditures that may be required. However, management expects that if any expenditures are required, they will not have a material adverse effect on Domtar's financial condition, earnings or cash flows.

Domtar is continuing to take remedial action under its Care and Control Program at a number of former operating sites, especially in the wood preserving sector, due to possible soil, sediment or groundwater contamination. The investigation and restoration process is lengthy and subject to the uncertainties of changes in legal requirements, development of technological applications, and the allocation of liability among potentially responsible parties.

As at December 31, 1999, Domtar had a $45 million (1998 – $51 million) provision to cover site rehabilitation costs known and determinable, of which the long term portion of $29 million (1998 – $29 million) was included in "Other liabilities". The portion of this provision's fluctuation recognized in earnings in 1999 was a charge of $3 million (1998 – nil; 1997 – revenue of $1 million). The charge for 1999 and the revenue for 1997 were included in Selling, general and administrative expenses. However, additional costs, not yet identified, could be incurred for site rehabilitation. Based on policies and procedures in place to monitor environmental exposure, management believes that any additional site rehabilitation costs will not have a material adverse effect on Domtar's financial condition, earnings or cash flows.

Contingencies

Domtar is party to environmental and other claims and lawsuits which are being contested. Management believes that the resolution of these claims and lawsuits will not have a material adverse effect on Domtar's financial condition, earnings or cash flows.

Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting Domtar, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved, and this despite the efforts deployed by Domtar.

Lease commitments

The Corporation and its subsidiaries have entered into operating leases for property and equipment. Minimum future rental payments under these operating leases, determined as at December 31, 1999, were as follows:

2000	2001	2002	2003	2004	Thereafter	Total
$	$	$	$	$	$	$
12	10	6	3	3	9	43

(In millions of Canadian dollars, unless otherwise noted)

10. Commitments and contingencies (continued)

Total rental expense amounted to $17 million in 1999 (1998 – $15 million; 1997 – $18 million).

Norampac has entered into operating leases for property and equipment. Minimum future rental payments under these operating leases, determined as at December 31, 1999, were as follows:

2000	2001	2002	2003	2004	Thereafter	Total
$	$	$	$	$	$	$
5	4	4	3	2	6	24

Total rental expense amounted to $2 million in 1999 (1998 – $2 million).

11. Stated capital

Preferred shares

The outstanding preferred shares were as follows at December 31:

	1999		1998		1997	
	Number of shares	**$**	Number of shares	$	Number of shares	$
Serial preferred shares						
Series A	**69,576**	**2**	69,576	2	69,576	2
Series B	**2,070,000**	**52**	2,190,000	55	2,310,000	58
Series E	**–**	**–**	–	–	400,000	10
Series F	**–**	**–**	1,200,000	30	1,200,000	30
		54		87		100

The authorized serial preferred shares consist of preferred shares issuable in an unlimited number of series, ranking equal with respect to the payment of dividends and the distribution of assets.

The Series A Preferred Shares are non-voting and redeemable at the Corporation's option at $25.00 per share since April 1, 1994. These shares carry a cumulative cash dividend per share of $2.25 per annum.

The Series B Preferred Shares are non-voting and redeemable at the Corporation's option at $25.00 per share. These shares carry a cumulative cash dividend equivalent to 72% of the bank prime rate.

The Corporation has undertaken to make all reasonable efforts to purchase quarterly, for cancellation, 1% of the number of Series A and Series B Preferred Shares outstanding on April 2, 1992 at prices not exceeding $25.00 per share. In connection therewith, Preferred Shares purchased for cancellation were as follows:

	1999		1998		1997	
	Number of shares	**Average price per share**	Number of shares	Average price per share	Number of shares	Average price per share
		$		$		$
Series B	**120,000**	**19.98**	120,000	20.39	120,000	19.06

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(In millions of Canadian dollars, unless otherwise noted)

11. Stated capital (continued)

The Series E Preferred Shares were non-voting and redeemable at the Corporation's option at any time at $25.00 per share. On May 1, 1998, all issued and outstanding Series E Preferred shares were redeemed by the Corporation at a cash price per share of $25.00.

The Series F Preferred Shares were non-voting and redeemable at the Corporation's option at any time at $25.00 per share or at the holder's option on April 30, 2001, in which case the redemption price could, at the option of the Corporation, be paid in cash or by the issuance of common shares at a price equal to 87 1/2% of the then quoted market value. On May 1, 1999, all issued and outstanding Series F Preferred shares were redeemed by the Corporation at a cash price per share of $25.00.

Common shares

The Corporation is authorized to issue an unlimited number of common shares. The changes in the number of outstanding common shares and their aggregate stated value from January 1, 1997 to December 31, 1999 were as follows:

	1999		1998		1997	
	Number of shares	**$**	Number of shares	$	Number of shares	$
Balance at beginning of year	**183,429,542**	**1,226**	149,477,815	868	150,420,907	872
Shares issued						
- Acquisition of E.B. Eddy	**–**	**–**	35,714,286	368	–	–
- Stock option and share purchase plans	**1,079,185**	**11**	345,541	3	355,308	4
Shares purchased for cancellation	**(368,900)**	**(3)**	(2,108,100)	(13)	(1,298,400)	(8)
Balance at end of year	**184,139,827**	**1,234**	183,429,542	1,226	149,477,815	868
Book value per common share at end of year		**9.44**		8.73		8.03

During 1999, the Corporation purchased for cancellation 368,900 common shares (1998 – 2,108,100 shares; 1997 – 1,298,400 shares) at an average price per share of $15.93 (1998 – $9.50; 1997 – $10.55) under a Normal Course Issuer Bid. The excess of the purchase price over the average stated capital of the shares has been charged to retained earnings.

Book value per common share is the sum of the stated value of common shares, retained earnings and accumulated foreign currency translation adjustments divided by the number of common shares outstanding at year end.

Earnings per share are calculated using the weighted average number of common shares outstanding during the year, which amounted to 183,912,674 shares in 1999 (1998 – 163,428,334 shares; 1997 – 150,401,236 shares).

Fully diluted earnings per share are calculated by taking into consideration the effect of the exercise of the stock options at January 1, 1999. The number of shares used in the calculation of the fully diluted earnings per share was 187,063,293 shares in 1999 (1998 – 170,051,559 shares ; 1997 – 157,381,486 shares).

Executive stock option and share purchase plan

Under the Executive Stock Option and Share Purchase Plan (the "Plan"), options, rights and bonus shares may be granted to selected eligible employees. One-fourth of the options may be exercised at each anniversary date of the grant, except for the following: (i) 39% of the options granted in 1998 and 48% of the options granted in March 1996 will become or became exercisable on the third anniversary of the grant; (ii) 74% of the options granted in March 1997 will become exercisable at the rate of 25% on or after the first anniversary of the grant if the market value of the Corporation's common shares reaches $18.25 in the year following the grant, at the rate of 50% on or after the second anniversary of the grant if the market value of the Corporation's common shares reaches $19.77 in the two-year period following the grant, at the rate of 75% on or after the third anniversary of the grant if the market value of the Corporation's common shares reaches $21.39 in the three-year period following the grant and at the rate of 100% on the fourth anniversary of the grant if the market value of the Corporation's common shares reaches $23.62 in the four-year period following the grant (referred to as the "performance options"). Options normally expire ten years after the date of the grant except for the performance options which expire eight years after the date of the grant. During 1999, 1998 and 1997, options were granted at a price equal to the market value on the day immediately preceding the date the options were granted. The fair value of options granted during the year was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 5.3% (1998 – 5.4%; 1997 – 5.9%); annual dividends of $0.14 in 1999 (1998 and 1997 – $0.14); expected lives of six years for 1999 (1998 and 1997 – six years) and volatility of 30.0% (1998 – 29.4%; 1997 – 31.0%).

(In millions of Canadian dollars, unless otherwise noted)

11. Stated capital (continued)

Changes in the number of options outstanding were as follows:

	1999		1998		1997	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price	Number	Weighted average exercise price
		$		$		$
Outstanding at beginning of year	**3,097,348**	**10.69**	2,933,005	10.82	1,906,333	9.51
Granted	**739,690**	**9.48**	581,060	10.10	1,503,614	12.29
Exercised	**566,467**	**9.52**	75,304	8.45	117,080	8.61
Cancelled	**212,106**	**10.96**	341,413	11.31	359,862	10.76
Outstanding at end of year	**3,058,465**	**10.59**	3,097,348	10.69	2,933,005	10.82
Options exercisable at end of year	**874,304**		984,184		853,672	
Weighted average fair value of options granted during the year		**3.21**		3.38		4.69

The following table summarizes information about options outstanding and exercisable at December 31, 1999:

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number**	**Weighted average contractual life**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
			$		**$**
$6.38 – $9.25	**607,178**	**6.2 years**	**8.61**	**372,772**	**8.25**
$9.50 – $11.00	**1,344,340**	**8.0 years**	**10.07**	**393,611**	**10.64**
$11.25 – $12.75	**1,091,027**	**7.3 years**	**12.30**	**92,001**	**12.30**
$13.00 – $15.00	**15,920**	**0.3 year**	**13.19**	**15,920**	**13.19**
	3,058,465			**874,304**	

During the year, 228,126 shares were issued pursuant to the exercise of rights and 31,695 bonus shares were issued.

As at December 31, 1999, 10,000,000 common shares (1998 and 1997 – 5,000,000) were authorized for issuance under the Plan.

Employee Share Purchase Plans

Since December 11, 1998 under the Employee Share Purchase Plans, all employees are eligible to purchase common shares at a price of 90% of the quoted market value. Before that date, only employees other than those eligible for the Executive Stock Option and Share Purchase Plan were eligible. Common shares are purchased under the plans on monthly investment dates. Shares purchased under the Canadian plan are subject to a mandatory twelve-month holding period. Employees who hold the shares for 18 months following the date of acquisition (U.S. plan) or who hold the shares purchased in any calendar year until June 30 of the following year (Canadian plan) are entitled to receive additional common shares equivalent to 10% of the cost of such shares. As at December 31, 1999, 3,350,000 common shares (1998 – 3,200,000; 1997 – 2,200,000) were authorized for issuance under the plans. During the year, 252,897 common shares (1998 – 129,743; 1997 – 108,365) were issued under the plans at an average price of $11.74 (1998 – $8.45; 1997 – $10.55) per share. Since their inception, 2,519,028 shares were issued under these plans.

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(In millions of Canadian dollars, unless otherwise noted)

12. Financial instruments

Fair value of financial instruments

	1999		1998	
	Fair value	**Book value**	Fair value	Book value
	$	**$**	$	$
Long-term debt	**1,095**	**1,054**	1,263	1,196

The fair value of the long-term debt, including the portion due within one year, is based on quoted market prices.

Due to their short-term maturity, the carrying values of certain financial instruments were assumed to approximate their fair values. These financial instruments include: cash, receivables, bank indebtedness and trade and other payables.

Interest rate risk

Domtar's exposure to interest rate risk is as follows:

Cash		Non-interest bearing
Receivables		Non-interest bearing
Bank indebtedness		Floating rate and non-interest bearing
Bank credit facility		Floating rate
Trade and other payables		Non-interest bearing
Long-term debt		
maturing 1 year or less:	$24	Fixed interest rate
maturing in 2 to 5 years:	$328	Fixed and variable interest rates
maturing in 6 to 10 years:	$453	Fixed interest rate
maturing in 11 or more years:	$249	Fixed interest rate

Derivative financial instruments

In order to reduce the potential negative effect of a rising Canadian dollar, Domtar has entered into various arrangements to hedge anticipated future cash inflows denominated in U.S. dollars.

	Average rate		Contractual amounts	
	1999	1998	**1999**	1998
	(Canadian dollars)		(millions of U.S. dollars)	
	$	$	**$**	$
Forward foreign exchange contracts				
0 to 12 months	**1.42**	1.39	**404**	514
13 to 24 months	**1.44**	1.43	**520**	366
25 to 36 months	**1.46**	1.43	**219**	191
Currency options purchased				
0 to 12 months	**1.38**	1.30	**211**	270
13 to 24 months	**–**	1.32	**–**	111
Currency options sold				
0 to 12 months	**1.39**	1.36	**111**	285
13 to 24 months	**–**	1.39	**–**	111

Forward foreign exchange contracts are contracts whereby Domtar has the obligation to sell U.S. dollars at a specific rate.

Currency options purchased are contracts whereby Domtar has the right, but not the obligation, to sell U.S. dollars at the strike rate if the U.S. dollar trades below that rate. Currency options sold are contracts whereby Domtar has the obligation to sell U.S. dollars at the strike rate if the U.S. dollar trades above that rate.

The fair value of derivative financial instruments generally reflects the estimated amounts that Domtar would receive or pay to settle the contracts at December 31, 1999 and 1998. As at these dates, the exchange rates were $1.44 and $1.53, respectively, and the fair value of the above derivative financial instruments was as follows:

	1999	1998
	$	$
Forward foreign exchange contracts	**9**	(122)
Currency options	**(4)**	(63)

Notes to Consolidated Financial Statements

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

12. Financial instruments (continued)

As at December 31, 1999, a provision of $25 million (1998 – $65 million) corresponding to the fair value, at the date of acquisition of E.B. Eddy, of hedging instruments acquired and still outstanding at December 31, 1999 and 1998, was recorded in the accounts. After taking into consideration this provision, the potential unrealized gains stated above were $30 million (1998 – losses of $120 million).

13. Accumulated foreign currency translation adjustments

	1999	1998	1997
	$	$	$
Balance at beginning of year	**2**	–	–
Effect of changes in exchange rates during the year:			
On the net investment in self-sustaining foreign subsidiaries	**(6)**	3	–
On certain long-term debt denominated in foreign currencies designated as a hedge of the net investment in self-sustaining foreign subsidiaries	**3**	(1)	–
Balance at end of year	**(1)**	2	–

14. Interest in a joint venture

Effective December 30, 1997, the Corporation and Cascades Inc. merged their respective packaging businesses to form Norampac Inc., a 50-50 joint venture. The Corporation's packaging business was contributed to the joint venture for a total consideration of $582 million, of which $100 million was received in cash, $280 million in common shares of Norampac, $200 million in redeemable preferred shares of Norampac (which were totally redeemed on January 7, 1998) and the balance was received as reimbursement of certain capital expenditures.

The total gain (before proportionate consolidation) resulting from this transaction amounted to $196 million, of which $98 million, due to the Corporation's 50% investment in the joint venture, was not recognized. Of the remaining $98 million, $25 million was realized in 1997 and $73 million was deferred and is amortized over a period of 15 years.

The following amounts represent Domtar's proportionate interest in Norampac:

	1999	1998
	$	$
Assets		
Current assets	**136**	121
Long-term assets	**365**	382
Liabilities		
Current liabilities	**78**	73
Long-term liabilities	**216**	243
Earnings		
Net sales	**453**	434
Operating profit	**59**	29
Financing expenses	**21**	22
Net earnings	**22**	3
Cash flows		
Cash flows from operating activities	**38**	24
Cash flows from investing activities	**(14)**	2
Cash flows from financing activities	**(24)**	(26)

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December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

15. Cash flows

	1999	1998	1997
	$	$	$
Change in operating working capital:			
Receivables	**(66)**	(80)	4
Inventories	**17**	(141)	26
Prepaid expenses	**(6)**	–	(4)
Trade and other payables	**(49)**	220	(12)
Income and taxes payable	**(22)**	43	(11)
	(126)	42	3
Add (deduct):			
Operating working capital of E.B. Eddy at acquisition	**–**	74	–
Fair value adjustments to working capital acquired	**–**	(108)	–
Working capital of businesses divested	**–**	–	(7)
Working capital of Packaging Division at formation of Norampac	**–**	–	(81)
Working capital of Norampac at formation	**–**	–	46
Funding of pension plans	**(22)**	(10)	(12)
Changes in working capital not affecting cash	**(13)**	(4)	35
	(161)	(6)	(16)

Investment and financing activities

In 1999, the Corporation retroactively adopted the new Canadian standards with respect to the statement of cash flows. Under the new standards, investment and financing operations that do not require the use of cash or cash equivalents must be excluded from the statement of cash flows. Except for the impact of the acquisition of E.B. Eddy described below and the change in the composition of cash and cash equivalents, this change has had no significant impact.

Upon the acquisition of E.B. Eddy in 1998, a portion of the purchase price was settled by the issuance of common shares having a value of $368 million.

16. Pension and postretirement benefit plans

Domtar has several pension plans covering substantially all employees. These plans are generally contributory in Canada and non-contributory in the United States. On January 1, 1998, a defined contribution option was added to the non-unionized employees' pension plan. The assets of the pension plans are invested primarily in listed common stock and fixed income securities.

Defined contribution plan

The pension expense for the defined contribution option for the non-unionized employees is equal to Domtar's contribution for this option. The 1999 pension expense was $1 million (1998 – $1 million).

Defined benefit plans

The pension expense and the obligation for pension benefits other than the defined contribution option, are actuarially determined using management's most probable assumptions.

The weighted average assumptions as at December 31 are as follows:

	1999	1998	1997
Discount rate	**8.5%**	8.4%	8.5%
Expected return on plan assets	**8.5%**	8.4%	8.5%
Average rate of compensation increase			
- unionized employees	**3.0%**	3.0%	3.0%
- non-unionized employees	**3.5%**	3.5%	3.5%

The average annual rate of compensation increase for non-unionized employees was assumed to remain at 3.5% (1998 and 1997 – 3.5%) until 2002 and to increase to 5.0% thereafter. The average annual rate of compensation increase for unionized employees was assumed to remain at 3.0% (1998 and 1997 – 3.0%) until 2002 and to increase to 5.0% thereafter unless rate increases have already been established through labor agreements.

Notes to Consolidated Financial Statements

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(In millions of Canadian dollars, unless otherwise noted)

16. Pension and postretirement benefit plans (continued)

Net periodic benefit cost

Components of net periodic benefit cost for defined benefit plans were as follows:

	1999	1998	1997
	$	$	$
Service cost for the year	14	9	8
Interest expense	61	46	43
Expected return on plan assets	(66)	(50)	(44)
Recognized actuarial gains	(9)	(10)	(8)
Other	2	6	5
Net periodic benefit cost	2	1	4

Funding

Domtar's funding policy is to contribute annually the amount required to provide for benefits earned in the year and to fund past service liabilities over periods not exceeding those permitted by the applicable regulatory authorities. Past service liabilities primarily arise from improvements to plan benefits.

The funded status of the plans was as follows:

	1999	1998
	$	$
Benefit obligation at beginning of year	704	467
Service cost for the year	14	9
Interest expense	61	46
Plan participants' contributions	11	8
Acquisition of E.B. Eddy	–	215
Amendments	42	–
Actuarial losses (gains)	(5)	3
Benefits paid	(55)	(49)
Other	(2)	5
Benefit obligation at end of year	770	704
Fair value of plan assets at beginning of year	819	543
Actual return on plan assets	96	45
Employer contribution	21	10
Plan participants' contributions	11	8
Acquisition of E.B. Eddy	–	259
Benefits paid	(55)	(49)
Other	5	3
Fair value of plan assets at end of year	897	819
Funded status of the plans	127	115
Unrecognized actuarial gains	(143)	(113)
Unrecognized prior service cost	66	31
Valuation allowance	(13)	(16)
Other	–	(1)
Net amount recognized	37	16

Amounts recognized in the Consolidated Balance Sheet consist of:

	1999	1998
	$	$
Accrued pension asset	60	37
Accrued pension liability	(23)	(21)
Net amount recognized	37	16

Notes to Consolidated Financial Statements

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(In millions of Canadian dollars, unless otherwise noted)

16. Pension and postretirement benefit plans (continued)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligation in excess of plan assets were $31 million, $27 million and $5 million, respectively, as at December 31, 1999, and $40 million, $35 million and $11 million, respectively, as at December 31, 1998.

Postretirement benefits

Domtar provides group health care and life insurance benefits to certain retirees, their spouses and unmarried dependents. The cost of providing these benefits, which is charged to earnings as incurred, amounted to $3 million in 1999 (1998 – $3 million; 1997 – $4 million).

17. Related party transactions

Domtar is not aware of having entered into any transaction other than on normal commercial terms and in the ordinary course of business with its shareholders, Société générale de financement du Québec (directly and indirectly through its wholly-owned subsidiary SGF Rexfor Inc.) and Caisse de dépôt et placement du Québec, or any party related thereto.

18. Segmented disclosures

The Corporation operates in the three reportable segments described below. Each reportable segment offers different products and services and requires different technology and marketing strategies. The following summary briefly describes the operations included in each of Domtar's reportable segments:

- Papers – represents the aggregation of the manufacture and distribution of communication and specialty papers as well as pulp.
- Wood – includes forest resources and sawmill operations.
- Packaging – comprises Domtar's 50% ownership interest in Norampac, a company which manufactures and distributes containerboard and corrugated products.

The accounting policies of the reportable segments are the same as those described in the Summary of Significant Accounting Policies. The Corporation evaluates performance based on operating profit, which represents sales, reflecting transfer prices between segments at market value, less allocable expenses before financing expenses and income taxes. Segment assets are those which are directly used in segment operations.

	1999	1998	1997
	$	$	$
Segmented data			
Net sales			
Papers			
External customers	**2,095**	1,558	1,195
Wood			
External customers	**535**	356	265
Intersegment sales	**108**	49	61
Packaging			
External customers	**453**	434	478
Intersegment sales	**10**	8	15
Total for reportable segments	**3,201**	2,405	2,014
Intersegment sales	**(118)**	(57)	(76)
Consolidated net sales	**3,083**	2,348	1,938
Amortization			
Papers	**167**	128	98
Wood	**34**	28	20
Packaging	**26**	26	24
Total for reportable segments	**227**	182	142
Corporate	**2**	2	2
Consolidated amortization	**229**	184	144

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18. Segmented disclosures (continued)

	1999	1998	1997
	$	$	$
Operating profit (loss)			
Papers	265	165	77
Wood	52	7	28
Packaging	59	29	(44)
Total for reportable segments	376	201	61
Items not related to operating segments	3	(1)	(5)
Consolidated operating profit	379	200	56
Financing expenses	111	91	50
Gain on contribution to Norampac, including amortization of deferred gain	(5)	(5)	(25)
Income taxes	111	42	8
Non-controlling interest	(1)	(2)	(2)
Consolidated net earnings	163	74	25
Segment assets			
Papers	2,805	2,804	1,792
Wood	545	539	298
Packaging	501	503	489
Total for reportable segments	3,851	3,846	2,579
Corporate	168	184	383
Consolidated assets	4,019	4,030	2,962
Expenditures for property, plant and equipment			
Papers	151	152	81
Wood	34	30	15
Packaging	21	21	34
Total for reportable segments	206	203	130
Corporate	8	9	2
Consolidated expenditures for property, plant and equipment	214	212	132
Geographic information			
Net sales *(a) (b)*			
Canada	1,095	1,047	955
United States	1,922	1,230	933
Other foreign countries	66	71	50
	3,083	2,348	1,938
Property, plant and equipment and goodwill			
Canada	2,896	2,932	1,961
United States	109	123	51
Other foreign countries	20	23	17
	3,025	3,078	2,029

(a) Sales are attributed to countries based on location of external customers.

(b) Export sales from Canada were $1,750 million, $1,176 million and $965 million for 1999, 1998 and 1997, respectively.

(In millions of Canadian dollars, unless otherwise noted)

19. United States generally accepted accounting principles

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) which, in the case of Domtar, conform in all material respects with GAAP in the United States (U.S. GAAP), except as set forth below.

(a) Net earnings and balance sheet adjustments

Net earnings adjustments

	1999	1998	1997
	$	$	$
Net earnings in accordance with Canadian GAAP	163	74	25
Net pension benefit cost *(1)*	(30)	(17)	(23)
Unrealized exchange gain (loss) on translation of long-term debt *(2)*	35	(31)	(17)
Unrealized gain (loss) on currency hedging contracts *(3)*	150	(62)	(54)
Postretirement benefit cost other than pensions (net) *(5)*	(4)	(4)	(3)
Gain on contribution to Norampac, including amortization of deferred gain *(1) (5) (6)*	(5)	(5)	76
Provision for reorganization costs *(7)*	–	(7)	–
Adjustments related to the acquisition of E.B. Eddy *(8)*	(16)	(4)	–
Tax effect of the above adjustments	(38)	45	7
Difference in the determination of income taxes *(9)*	1	1	12
Net earnings (loss) in accordance with U.S. GAAP	256	(10)	23
Dividend requirements of preferred shares	3	3	2
Net earnings (loss) applicable to common shares in accordance with U.S. GAAP	253	(13)	21
Per common share in accordance with U.S. GAAP			
Net earnings (loss)			
Basic	1.38	(0.08)	0.13
Diluted	1.37	(0.08)	0.13

Diluted earnings per share for the year 1999

	Earnings (Numerator)	Number of shares (Denominator)	Per share amount
	$		$
Net earnings applicable to common shares	253	183,913	1.38
Effect of dilutive shares			
Options (using the Treasury Stock Method)	–	623	0.01
	253	184,536	1.37

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(In millions of Canadian dollars, unless otherwise noted)

19. United States generally accepted accounting principles (continued)

Balance sheet adjustments

	1999		1998	
	Canadian GAAP	**U.S. GAAP**	Canadian GAAP	U.S. GAAP
	$	**$**	$	$
Property, plant and equipment *(8)*	**2,969**	**3,066**	3,000	3,103
Other assets *(1) (2) (6) (7) (8)*	**175**	**247**	186	232
Trade and other payables *(1) (3) (4) (6) (7) (8)*	**504**	**480**	553	664
Deferred credits *(6)*	**100**	**37**	106	38
Deferred income taxes *(6) (7) (8) (9)*	**376**	**483**	269	330
Other liabilities *(1) (5) (6) (8)*	**107**	**211**	123	215
Shareholders' equity *(1)* to *(9)*	**1,791**	**1,836**	1,688	1,641

(1) The determination of the net pension cost in accordance with U.S. GAAP differs with respect to the valuation of plan assets at January 1, 1987, the basis used to determine the expected return on plan assets and discount rates used. Under U.S. GAAP, the weighted average discount rate used was 6.1% in 1999 (1998 – 6.3%; 1997 – 7.0%).

(2) Under Canadian GAAP, unrealized exchange gains and losses arising on the translation, at exchange rates prevailing on the balance sheet date, of long-term debt repayable in foreign currencies are deferred and amortized over the remaining life of the related debt. Under U.S. GAAP, such exchange gains and losses would be included in earnings.

(3) Under Canadian GAAP, gains and losses on currency hedging contracts are included in earnings only at maturity. Under U.S. GAAP, such contracts would be marked to market as they do not qualify as hedging instruments.

(4) Under Canadian GAAP, the net cost of providing postemployment benefits can either be charged against earnings and funded in the year incurred or provided for on an accrual basis. As allowed by Canadian GAAP, Domtar is accounting for postemployment benefits on a cash basis. Under U.S. GAAP, postemployment benefit costs are charged against earnings on an accrual basis rather than on a cash basis.

(5) Under Canadian GAAP, the net cost of providing postretirement benefits other than pensions can either be charged against earnings and funded in the year incurred or provided for on an accrual basis. As allowed by Canadian GAAP, Domtar is accounting for postretirement benefits other than pensions on a cash basis except for the provision for postretirement benefits which was recorded at the date of acquisition of E.B. Eddy and for which the balance at December 31, 1999 and 1998 is $12 million. Under U.S. GAAP, net postretirement benefit costs other than pensions are charged against earnings on an accrual basis rather than on a cash basis.

(6) As required by Canadian GAAP, the Corporation accounts for its investment in joint ventures by the proportionate consolidation method (Note 14). Under U.S. GAAP, these investments would be accounted for by the equity method. This difference does not affect the reported earnings or shareholders' equity. Moreover, under Canadian GAAP, a portion of the gain on the contribution to Norampac is deferred and amortized. Under U.S. GAAP, this gain was fully recognized upon the formation of Norampac.

(7) Under U.S. GAAP, certain components of the provision for reorganization costs would be charged to earnings as incurred and not capitalized upon the formation of joint ventures.

(8) The E.B. Eddy acquisition has been accounted for under Canadian GAAP, which differs from U.S. GAAP in the following respect: income taxes (see (9)), pension benefits (see (1)) and the provision for business integration. These adjustments would have increased Property, plant, and equipment by $105 million, Other assets by $93 million, Other liabilities by $24 million and Deferred income taxes by $181 million and decreased Trade and other payables by $7 million.

(9) Under Canadian GAAP, income taxes are provided for on the deferral method basis whereas under U.S. GAAP, income taxes are provided for on the liability method basis.

(In millions of Canadian dollars, unless otherwise noted)

19. United States generally accepted accounting principles (continued)

(b) Supplementary disclosures

i) Postretirement benefits other than pensions

The components of net postretirement benefit cost were as follows:

	1999	1998	1997
	$	$	$
Service cost for the year	**1**	1	1
Interest expense on accumulated postretirement benefit obligation	**4**	5	6
Net postretirement benefit cost	**5**	6	7

The following table sets forth the funded status of the plans:

	1999	1998
	$	$
Benefit obligation at beginning of year	**94**	77
Service cost for the year	**2**	1
Interest expense	**4**	6
Acquisition of E.B. Eddy	**–**	11
Actuarial loss (gain)	**(29)**	4
Benefits paid	**(5)**	(5)
Benefit obligation at end of year	**66**	94
Funded status of the plans	**66**	94
Unrecognized actuarial gain (loss)	**21**	(7)
Net amount recognized	**87**	87

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999 (1998 – 10.0%; 1997 – 11.0%); the rate was assumed to decrease gradually to the Consumer Price Index plus 2% in 2006 and to remain at that level thereafter. A 1.0% increase/decrease in this annual trend rate would have the following effects:

	1% Increase	**1% Decrease**
	$	**$**
Effect on total service and interest cost components	**1**	**(1)**
Effect on postretirement benefit obligation	**5**	**(2)**

The Corporation uses average compensation growth and discount rate assumptions to estimate its accumulated postretirement benefit obligation. These rates were 3.5% and 7.25%, respectively, as at December 31, 1999 and 3.5% and 5.75%, respectively, as at December 31, 1998.

ii) Accounting for stock-based compensation

Under U.S. GAAP, the Corporation has elected to continue to measure compensation cost related to awards of stock options using the intrinsic value based method of accounting. In this instance, however, under FASB Statement 123, the Corporation is required to make pro forma disclosures of net earnings, basic earnings per share and diluted earnings per share as if the fair value based method of accounting had been applied. Accordingly, the Corporation's net earnings, basic earnings per share and diluted earnings per share for the year ended December 31, 1999 and 1998 would have been reduced, on a pro forma basis, by $1 million, $0.01 and $0.01 (1997 – $2 million, $0.01 and $0.01). The pro forma effect on net earnings for the years ended December 31, 1999, 1998 and 1997 is not representative of the pro forma effect on net earnings in future years because it does not take into consideration pro forma compensation expense related to stock options awarded prior to 1995.

Notes to Consolidated Financial Statements

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

19. United States generally accepted accounting principles (continued)

iii) Comprehensive income and accumulated other comprehensive income

Comprehensive income	1999	1998	1997
	$	$	$
Net earnings (loss) in accordance with U.S. GAAP	**256**	(10)	23
Additional minimum liability of defined benefits plans, net of tax benefit of $1 (1998 – $3)	**(3)**	(6)	–
Foreign currency translation adjustments	**(3)**	2	–
Comprehensive income (loss)	**250**	(14)	23

Accumulated other comprehensive income	1999	1998	1997
	$	$	$
Additional minimum liability of defined benefit plans	**(9)**	(6)	–
Foreign currency translation adjustments	**(1)**	2	–
Accumulated other comprehensive income	**(10)**	(4)	–

iv) Impact of accounting pronouncements not yet implemented

Accounting for income taxes

In 1997, the Canadian Institute of Chartered Accountants ("CICA") issued a new accounting standard concerning accounting for income taxes. Domtar is required to adopt this standard for Canadian GAAP reporting purposes for the fiscal year beginning in 2000. Domtar has not yet determined the method of adoption of the standard it will use. Had the standard been implemented on a retroactive basis on January 1, 1999, it is estimated that the December 31, 1999 balances of Shareholders' equity would have decreased by approximately $105 million and Deferred income taxes would have increased by approximately $105 million.

Accounting for employee future benefits

In 1999, the CICA issued a new accounting standard concerning accounting for employee benefits. Domtar is required to adopt this standard for Canadian GAAP reporting purposes for the fiscal year beginning in 2000. Domtar has not yet determined the method of adoption of the standard it will use. Had the standard been implemented on a retroactive basis on January 1, 1999, it is estimated that the December 31, 1999 balances of Other liabilities would have increased by $155 million, Deferred income taxes would have decreased by approximately $55 million and Shareholders' equity would have decreased by approximately $100 million.

Accounting for derivatives and hedging activities

In 1998, FASB Statement 133, "Accounting for Derivative Instruments and Hedging Activities" was issued. Domtar must adopt this statement in fiscal year 2001 for United States reporting purposes. This Statement outlines accounting and reporting standards for derivative instruments and hedging activities. Under this standard, all derivatives will be recognized at fair value and will be accounted for depending on the intended use of each derivative and its designation as a hedge. The impact of implementing this standard on Domtar's consolidated balance sheets and consolidated statements of earnings and comprehensive income is not yet determinable.

Supplementary Information

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

Selected financial data

	1999	1998	1997	1996	1995
	$	$	$	$	$
Canadian GAAP					
Net sales	**3,083**	2,348	1,938	1,977	2,206
Operating profit before unusual items	**379**	200	56	109	509
Operating profit	**379**	200	56	74	509
Gain on contribution to Norampac, including amortization of deferred gain	**5**	5	25	–	–
Earnings (loss) from continuing operations	**163**	74	25	(87)	239
Net earnings	**163**	74	25	97	304
Total assets	**4,019**	4,030	2,962	2,709	3,191
Long-term debt	**1,030**	1,147	852	623	1,082
Total liabilities	**2,228**	2,342	1,661	1,397	1,913
Shareholders' equity	**1,791**	1,688	1,301	1,312	1,278
Per common share					
Earnings (loss) from continuing operations					
Basic (1)	**0.87**	0.44	0.15	(0.69)	1.80
Fully diluted	**0.86**	0.42	*	*	1.41
Net earnings					
Basic (1)	**0.87**	0.44	0.15	0.68	2.32
Fully diluted	**0.86**	0.42	*	0.63	1.80

The selected financial data presented above is prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). In the case of Domtar, these differ in certain respects from accounting principles generally accepted in the United States (United States GAAP), as shown in the reconciliation presented in Note 19 to the consolidated financial statements on page 56. Earnings and balance sheet data based on United States GAAP follow.

	1999	1998	1997	1996	1995
	$	$	$	$	$
United States GAAP					
Earnings (loss) from continuing operations	**256**	(10)	23	(9)	264
Net earnings (loss) before extraordinary items	**256**	(10)	23	203	327
Net earnings (loss)	**256**	(10)	23	139	327
Total assets	**4,188**	4,179	2,965	2,746	3,181
Long-term debt	**1,030**	1,147	852	623	1,185
Total liabilities	**2,352**	2,538	1,627	1,398	2,007
Shareholders' equity	**1,836**	1,641	1,338	1,351	1,174
Per common share					
Earnings (loss) from continuing operations					
Basic (1)	**1.38**	(0.08)	0.13	(0.09)	2.03
Diluted	**1.37**	(0.08)	0.13	(0.09)	1.58
Net earnings (loss) before extraordinary items					
Basic (1)	**1.38**	(0.08)	0.13	1.49	2.53
Diluted	**1.37**	(0.08)	0.13	1.32	1.96
Net earnings (loss)					
Basic (1)	**1.38**	(0.08)	0.13	1.01	2.53
Diluted	**1.37**	(0.08)	0.13	0.92	1.96

(1) The 1997 results include the after-tax impact of the gain on contribution to Norampac of $0.11 per share. The 1996 results include the after-tax impact of unusual items of $(0.17) per share.
** No dilution or antidilutive*

Supplementary Information

December 31, 1999

(In millions of Canadian dollars, unless otherwise noted)

Selected production statistics*

(In thousands of tonnes, unless otherwise noted)	**1999**	1998	1997	1996	1995
Papers (in thousands of tons)	**1,354**	1,009	780	766	752
Pulp (NBSK and NBHK)	**636**	400	242	239	239
Lumber (in millions of board feet)	**1,136**	869	613	736	488
Containerboard (1)	**584**	551	601	563	580
Corrugated containers (in millions of square feet, double-faced equivalent) (1)	**4,621**	4,457	6,318	5,888	5,823

** 1998 figures include five months of E.B. Eddy*

(1) 1999 and 1998 figures represent 50% of Norampac

Quarterly financial information (unaudited)

	1st	**2nd**	**3rd**	**4th**	**Year**
	$	**$**	**$**	**$**	**$**
1999					
Net sales	**695**	**754**	**804**	**830**	**3,083**
Operating profit	**55**	**86**	**111**	**127**	**379**
Net earnings	**15**	**32**	**50**	**66**	**163**
Cash flows from operating activities	**(59)**	**164**	**62**	**159**	**326**
Additions to property, plant and equipment	**41**	**41**	**49**	**83**	**214**
EBITDA	**112**	**142**	**168**	**186**	**608**
Per common share					
Net earnings					
Basic	**0.08**	**0.17**	**0.27**	**0.35**	**0.87**
Fully diluted	**0.07**	*	*	**0.34**	**0.86**
1998					
Net sales	493	509	653	693	2,348
Operating profit	43	41	60	56	200
Net earnings	17	14	20	23	74
Cash flow from operating activities	(13)	96	48	117	248
Additions to property, plant and equipment	20	28	48	116	212
EBITDA	83	81	108	112	384
Per common share					
Net earnings					
Basic	0.11	0.09	0.12	0.12	0.44
Fully diluted	0.10	*	0.11	*	0.42

** No dilution or antidilutive*

Historical Summary

(In millions of Canadian dollars, unless otherwise noted)

			1999	1998
			$	$
Operations	**Net sales**		3,083	2,348
	Operating expenses		2,704	2,148
	Operating profit (loss) before unusual items		379	200
	Unusual items and other expenses	Unusual items	–	–
		Financing expenses	111	91
		Premium and write-off on early redemption of long-term debt	–	–
		Gain on contribution to Norampac, including amortization of deferred gain	(5)	(5)
		Income tax expense (recovery)	111	42
		Non-controlling interest	(1)	(2)
	Earnings (loss) from continuing operations		163	74
	Discontinued operations, net of income taxes		–	–
	Net earnings (loss)		163	74
Financial Position	**Assets**	Cash, short term investments and deposits	3	9
		Other current assets	843	788
		Property, plant and equipment	2,969	3,000
		Other assets	204	233
		Total assets	4,019	4,030
	Liabilities and shareholders' equity	Short-term financing	–	–
		Other current liabilities	615	694
		Long-term debt	1,030	1,147
		Deferred credits and non-controlling interest	100	109
		Deferred income taxes	376	269
		Other liabilities	107	123
		Equity element of convertible debentures	–	–
		Preferred shares	54	87
		Common shareholders' equity	1,737	1,601
		Total liabilities and shareholders' equity	4,019	4,030
Cash Flows	**Operating**	Cash flows from operating activities	326	248
	Investing	Additions to property, plant and equipment	(214)	(212)
		Acquisition of businesses	–	(456)
		Net consideration received upon contribution to Norampac	–	–
		Net proceeds from business divestitures	–	–
		Other	27	5
	Financing	Dividend payments	(28)	(25)
		Long-term debt and equity financing	5	676
		Change in bank indebtedness	17	(4)
		Change in revolving bank credit	198	3
		Change in short-term financing	–	–
		Redemption, repayments and other	(337)	(509)
	Net increase (decrease) in cash and cash equivalents		(6)	(274)
Other Data	**Per common share**	Earnings (loss) from continuing operations (1)	0.87	0.44
		Net earnings (loss) (1)	0.87	0.44
		Cash dividends declared	0.14	0.14
		Year-end book value	9.44	8.73
		Market price		
		Toronto Stock Exchange		
		High	18.75	12.70
		Low	8.60	6.80
	Ratios	Return on common shareholders' equity (2)	10%	5%
		Net debt-to-total-capitalization ratio (3)	37:63	41:59
	Other statistics	Number of common shareholders	6,477	7,076
		Number of preferred shareholders	351	390
		Common shares outstanding (millions)	184.1	183.4
		Number of employees (4) (5)	8,232	7,946
		Salaries, wages and benefits (5)	544	414

(1) The 1997 results include the after-tax impact of the gain on contribution to Norampac of $0.11 per share. The 1996, 1994, 1992, 1990 and 1989 results include the after-tax impact of unusual items of $(0.17), $0.11, $(0.11), $(1.84) and $(0.16) per share, respectively.

*(2) The 1997 figures exclude a non-recurring $17-million after-tax gain realized on the contribution of Domtar's packaging net assets to Norampac.
The 1996 figures exclude non-recurring items related to the divestitures of the Gypsum and Decorative Panels divisions, a charge related to the refinancing program completed during the year and a charge principally related to asset write-downs.*

(3) Ratio of long-term debt and bank borrowings (including retractable preferred shares for the years 1989 to 1991, net of cash, short-term investments and short-term deposits held in trust) to total capitalization.

(4) The 1999 and 1998 data exclude Norampac. The 1997 data includes 100% of Domtar's packaging division, although it was contributed to Norampac on December 30, 1997.

(5) The 1998 data for salaries, wages and benefits includes only 5 months of E.B. Eddy whereas the data for number of employees includes all employees of E.B. Eddy as at December 31, 1998.

Historical Summary

(In millions of Canadian dollars, unless otherwise noted)

1997	1996	1995	1994	1993	1992	1991	1990	1989
$	$	$	$	$	$	$	$	$
1,938	1,977	2,206	1,596	1,287	1,270	1,238	1,630	1,741
1,882	1,868	1,697	1,469	1,324	1,344	1,309	1,625	1,628
56	109	509	127	(37)	(74)	(71)	5	113
–	35	–	(27)	–	19	–	252	22
50	72	123	133	133	107	84	96	72
–	127	–	–	–	–	–	–	–
(25)	–	–	–	–	–	–	–	–
8	(37)	141	10	(64)	(77)	(53)	(133)	(5)
(2)	(1)	6	–	–	–	–	–	1
25	(87)	239	11	(106)	(123)	(102)	(210)	23
–	184	65	67	(4)	(36)	(46)	(84)	10
25	97	304	78	(110)	(159)	(148)	(294)	33
283	44	286	319	115	42	115	2	35
567	593	710	575	548	557	517	616	798
1,954	1,982	2,076	1,809	1,898	1,955	2,038	2,115	2,263
158	90	119	144	130	116	72	91	183
2,962	2,709	3,191	2,847	2,691	2,670	2,742	2,824	3,279
–	–	–	–	–	–	–	69	238
408	408	416	367	338	465	308	378	409
852	623	1,082	1,220	1,204	976	1,246	1,051	869
121	65	78	79	95	103	112	123	138
212	210	240	99	66	118	209	277	408
68	91	97	104	84	79	68	67	27
–	–	99	93	88	–	–	–	–
100	103	216	219	222	225	81	81	82
1,201	1,209	963	666	594	704	718	778	1,108
2,962	2,709	3,191	2,847	2,691	2,670	2,742	2,824	3,279
125	172	520	166	14	(86)	(18)	77	212
(132)	(355)	(379)	(243)	(107)	(76)	(93)	(200)	(322)
–	–	(88)	–	–	–	–	(6)	(73)
285	–	–	–	–	–	–	–	–
–	604	–	297	28	–	8	158	97
(14)	(15)	251	(218)	8	13	4	1	(9)
(23)	(17)	(5)	(3)	(3)	(7)	(12)	(39)	(56)
–	360	4	3	365	350	99	118	33
15	(11)	–	16	(6)	4	(10)	(25)	20
–	–	(89)	(21)	(25)	(194)	219	16	65
–	–	–	–	–	–	(69)	(104)	65
(17)	(979)	(31)	(16)	(195)	(86)	(15)	(24)	(41)
239	(241)	183	(19)	79	(82)	113	(28)	(9)
0.15	(0.69)	1.80	0.02	(0.88)	(1.06)	(1.20)	(2.46)	0.13
0.15	0.68	2.32	0.55	(0.91)	(1.36)	(1.69)	(3.44)	0.23
0.14	0.14	–	–	–	–	–	0.30	0.49
8.03	8.04	7.56	5.23	4.69	5.57	7.12	8.94	12.78
13.50	12.70	14.75	10.13	9.25	8.38	10.00	13.50	18.00
8.85	9.00	9.25	6.50	4.88	4.25	7.00	9.00	12.88
1%	2%	37%	12%	(17)%	(23)%	(21)%	(33)%	2%
32:68	31:69	39:61	48:52	55:45	54:46	59:41	57:43	48:52
7,254	8,732	9,347	10,303	10,868	11,284	11,673	12,434	13,791
418	485	555	624	704	806	2,021	2,322	2,615
149.5	150.4	127.8	127.4	127.1	126.2	100.9	87.0	86.7
7,300	7,574	9,503	8,985	9,821	10,270	11,145	13,280	15,819
461	462	550	551	562	564	585	667	723

Statement on corporate governance

Companies listed with the Toronto Stock Exchange ("TSE") have to disclose, on an annual basis, their approach to corporate governance and conformity of their practices with the *Guidelines for Improved Corporate Governance* ("Guidelines") issued by the TSE. These guidelines deal, among other things, with the responsibilities of directors, the constitution of the board and board committees, and board practices.

Domtar's corporate governance guidelines have been adopted by the Board of Directors in keeping with the Guidelines and with similar systems introduced by public companies.

MANDATE OF THE BOARD

According to the *Canada Business Corporations Act*, the Corporation's governing statute, the business and affairs of the Corporation are managed under the supervision of its Board of Directors. There is no specific mandate for the Board since it has plenary power. The Board determines, among other things, the management philosophy, assesses management's execution and reviews the results obtained. Its duties include approval of strategic plans, review of corporate risks identified by management and of the Corporation's practices and policies for dealing with these risks, management succession planning, and assessment of the integrity of the Corporation's internal controls and information systems.

COMPOSITION OF THE BOARD

The Board of Directors is of the view that its directors are unrelated directors, except for Mr. Claude Fontaine who is a partner of a law firm which provides legal services to the Corporation on a regular basis; Mr. Harry E. Gould whose company is an important customer of the Corporation; Mr. Raymond Royer, President and Chief Executive Officer of the Corporation; and Mr. Edward J. Waters who is associated with a financial institution which, from time to time, has provided financial services to the Corporation.

Domtar does not have a "significant shareholder" as defined in the Guidelines to mean a shareholder with the ability to exercise a majority of the votes for the election of the Board of Directors. At the 1999 Annual Shareholders' Meeting, sixteen (16) directors were elected to the Board of Directors; the names of five (5) of these directors had been proposed for election to the Nominating and Corporate Governance Committee by each of Société générale de financement du Québec ("SGF") and Caisse de dépôt et placement du Québec ("Caisse") which held 19.74% and 16.92% of the Corporation's common shares, respectively. Domtar has been informed by SGF and Caisse that they presently intend to vote their shares so that their nominees represent a majority of the Board of Directors. The Board includes a number of directors who do not have interests in or relationships with either the Corporation, SGF or Caisse.

BOARD CHAIRMAN SEPARATE FROM MANAGEMENT

The positions of Chairman of the Board and Chief Executive Officer are separate and distinct. Mr. Jacques Girard holds the position of Chairman of the Board since August 1996. Mr. Raymond Royer holds the position of President and Chief Executive Officer since September 1996.

At all meetings of the Board and Committees of the Board, the opportunity is provided for any outside Board member to request that members of management be excused so that any matter may be discussed without any representative of management being present. During 1999, the Board and Board Committees held, in the aggregate, eight *in camera* sessions without any representatives of management being present.

COMMITTEES

The Board has established the following committees:

The Executive Committee is composed of seven (7) directors, five (5) of whom are outside unrelated directors, one (1) is an inside related director and one (1) is an inside unrelated director. Except as otherwise provided by law and by the administrative resolutions of the Corporation, this Committee may exercise all the powers of the Board of Directors. In practice, however, the Committee acts only with respect to specific matters delegated to it by the Board of Directors and its approval level is limited to investments not exceeding $10 million. The Committee met twice in 1999.

The Nominating and Corporate Governance Committee is composed of six (6) directors, four (4) of whom are outside unrelated directors, one (1) is an outside related director and one (1) is an inside unrelated director. The mandate of the Committee is to:

- recommend annually to the Board proposed candidates suitable for election or re-election to the Board;
- review and evaluate periodically the performance and contribution of each director and the effectiveness of the Board as a whole;
- review annually the compensation of the directors in their capacity as directors, and make recommendations to the Board;
- review periodically the mandates and performance of the committees of the Board and review annually the memberships and chairs of the committees and make recommendations to the Board;
- monitor the system of corporate governance of the Corporation; and
- advise the Board and the Committees of the Board on corporate governance issues.

The Committee met four times in 1999.

Statement on corporate governance

The Human Resources Committee is composed of seven (7) directors, six (6) of whom are outside unrelated directors and one (1) is an inside unrelated director. The mandate of the Committee is to:

- review the human resources policies of the Corporation;
- approve the engagement and termination, and the promotion and compensation of the members of the Management Committee of the Corporation and the engagement of all officers of the Corporation, except for the Chief Executive Officer and the Chief Operating Officer of the Corporation in respect of whom the Committee makes recommendations to the Board; and
- review annually, or as needed, the succession planning for the Chief Executive Officer and the Chief Operating Officer, the senior management of the Corporation and their direct reports.

The Committee met five times in 1999.

The Audit Committee is composed of four (4) members, three (3) of whom are outside unrelated directors and one (1) is an outside related director. The mandate of the Committee is to:

- review, prior to submission to the Board, all financial information and financial statements of the Corporation and the external auditors' report thereon;
- review with the external and internal auditors of the Corporation the arrangements for and scope of each proposed audit of the accounting records and report to the Board any significant reservations the Committee may have or the external or internal auditors may have expressed with respect to such arrangements or scope;
- review periodically with the Corporation's external and internal auditors their respective activities and the nature of their respective recommendations and to report on same at least annually to the Board;
- evaluate the performance of the external auditors, review their fees and make recommendations to the Board in this respect;
- evaluate annually the organization, independence and efficiency of the internal auditors; and
- review periodically the Code of Ethics of the Corporation and its adherence by Management.

The Committee met five times in 1999.

The Pension Committee is composed of five (5) directors, two (2) of whom are outside unrelated directors, one (1) is an inside related director, one (1) is an inside unrelated director and one (1) is an outside related director. The mandate of the Committee is to:

- approve the investment policy of the pension funds and the benchmarks used to measure the performance of the pension funds;
- recommend annually to the Board, for its approval, the funding policy for the pension funds;
- approve the hiring of the external portfolio managers and their objectives, and evaluate the performance of the external and internal portfolio managers;
- approve assumptions used in actuarial valuations of the pension funds and review reports thereon; and
- recommend to the Board, for its approval, amendments to the pension plans.

The Committee met three times in 1999.

The Environment and Health and Safety Committee is composed of five (5) directors, three (3) of whom are outside unrelated directors, one (1) is an inside related director and one (1) is an outside related director. The mandate of the Committee is to review the policy, management plans, programs, practices and performance of the Corporation in light of applicable environment and health and safety legislative requirements, assess the performance of the Corporation in these areas and make recommendations to the Board.

The Committee met three times in 1999.

DECISIONS REQUIRING PRIOR APPROVAL BY THE BOARD

In general, all matters of management philosophy and strategic direction, and all actions proposed to be taken by the Corporation which are not in the ordinary course of its operations require prior approval of the Board or of a Board committee to which approval authority has been delegated by the Board.

SHAREHOLDER COMMUNICATIONS

The Corporation communicates regularly with its shareholders and the investment community through quarterly reports, annual reports and press releases. The Corporation has a shareholder relations process and an investor relations and communication program which enable the Corporation to respond adequately to shareholder questions and concerns and to communicate effectively with its shareholders, stakeholders and the public in general.

BOARD'S EXPECTATIONS OF MANAGEMENT

The Board can and does act independently of management. The Board expects management to be responsible for the operation of the business, while respecting authorized financial limits, and adhering to the strategic plan, operational budget and the policies adopted by the Corporation. The Board expects to be advised by management, on a regular basis, as to the results being achieved, and to be presented with alternative plans and strategies to be implemented for approval, in keeping with evolving conditions.

Board of directors

As at February 28, 2000

Jacques Girard *(1) (3) (4) (6)*
Montréal
Chairman of the Board
Domtar Inc.
President and Chief Executive Officer
Montréal International

Claude Blanchet *(1) (3)*
Montréal
Chairman of the Board
President and Chief Executive Officer
Société générale de financement du Québec

Gilles Blondeau *(1) (3) (4)*
Montréal
Chairman of the Board and
Chief Executive Officer
Optimum Group Inc.

Paul-Henri Couture *(1) (3)*
Montréal
Vice-President
Capital d'Amérique CDPQ inc.

Claude Fontaine, Q.C. *(2)*
Montréal
Partner in the law firm
Ogilvy Renault

Louis P. Gignac *(1) (3) (5)*
Montréal
President and
Chief Executive Officer
Cambior Inc.

Harry E. Gould Jr. *(5)*
New York
Chairman of the Board
President and Chief Executive Officer
Gould Paper Corporation

Claude R. Lamoureux *(1) (4) (6)*
Toronto
President and Chief Executive Officer
Ontario Teachers' Pension Plan Board

Pierre Lamy *(2) (4) (5)*
Montréal
Economic and Financial Consultant

Jacques Laurent *(4) (5)*
Montréal
Partner in the law firm
Lafleur Brown

Brian M. Levitt *(3)*
Montréal
Corporate Director
Imperial Tobacco Canada Ltd.

Louiselle Paquin *(2)*
Montréal
Senior Vice-President
Finance, Portfolio
Management and Administration
SITQ Immobilier

Louise Roy *(3)*
Montréal
President and Chief Executive Officer
Télémédia inc.

Raymond Royer *(1) (5) (6)*
Montréal
President and Chief Executive Officer
Domtar Inc.

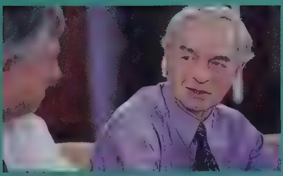
John D. Thompson *(2) (6)*
Montréal
Deputy Chairman of the Board
Montreal Trust

Edward J. Waters *(4) (6)*
New York
Chairman of the Board and President
C.I.I.C., Ltd.

Members of the:
(1) Executive Committee
(2) Audit Committee
(3) Human Resources Committee
(4) Nominating and Corporate Governance Committee
(5) Environment and Health and Safety Committee
(6) Pension Committee

Management Committee

As at February 28, 2000



Raymond Royer
President and
Chief Executive Officer

Christian Dubé
Senior Vice-President and
Chief Financial Officer

Robert J. Eamer
Senior Vice-President
Corporate and Technology Development

Roland Gagnon
Senior Vice-President
Wood Products Division and
Senior Vice-President
Human Resources Development
and Work Organization

George Kobrynsky
Senior Vice-President
Communication Papers Division

E. Craig McManus
Senior Vice-President
Forest Resources Division

Gilles Pharand
Senior Vice-President
Corporate Affairs, General Counsel and Secretary

C. Lance Skerratt
Senior Vice-President
Eddy Specialty Papers Division

Management

As at February 28, 2000

Principal Executives – Corporate

Brian Aitken
Vice-President and Treasurer

Guy L. Boucher
Vice-President
Environment

William George
Vice-President
Communications and Government Relations

Y. Glen Katsuyama
Vice-President
Legal Services

Hubert Pelletier
Vice-President
Shared Services

Razvan L. Theodoru
Assistant Secretary

Nicholas Willis
Assistant Treasurer

Principal Executives – Production and Sales

Communication Papers Division

Claude Belley
Vice-President
Cornwall Mill

Yvon Boyer
Vice-President
St. Catharines Mill

Côme Desmeules
Director of Operations
Norkraft Pulp Mill, Lebel-sur-Quévillon

Ghislain Dinel
Vice-President
Pulp

Eric Heine
Vice-President
Pulp Sales and Marketing

Normand Lecours
Vice-President
Sales and Marketing

Barry Lynch
Vice-President and General Manager
Merchants

Viviane Proulx
Vice-President
Customer Service and Logistics

Pierre Trudel
Vice-President
Windsor Mill

Bruce G.R. Fowler
Vice-President
Marketing & Sales, Fine Papers
Western Region

Dominic J. Maiorino
Vice-President
Marketing & Sales, Fine Papers
Eastern Region

Pat A. Parker
Resident Manager
Espanola Pulp Mill

Ross D. Stairs
Resident Manager
Ottawa/Hull Mill

Richard Wagner
Vice-President & Resident Manager
Port Huron Mill

Eddy Specialty Papers Division

Jim A. Blackburn
Manager
Espanola Paper Mill

Richard P. Cole
Vice-President
Sales, Technical & Specialty Papers

Charles E. Dickens
Resident Manager
Vancouver Mill

Wood Products Division

Gaétan Malette
Vice-President
Ontario Sawmills

Monique Martin
Vice-President
Marketing and Sales

Daniel Michaud
Vice-President
Québec Sawmills

Forest Resources Division

Kevin Belanger
Vice-President
Forest Operations, Ontario

Roger Cook
Vice-President
Environment, Native and Government Affairs

Gildas Minville
Vice-President
Forest Operations, Québec

Glossary

Canadian Standards Association (CSA) The CSA system is based on the Canadian Council of Forest Ministers' six criteria. The system mandates the development of local values, goals, by an extensive public consultation process. The local indicators must provide measurable features to show criteria are being met. The CSA system relates specifically to forestry and its requirements generally go beyond what is required for ISO 14001.

Commodity A product or raw material of similar manufacture that is bought or sold at a price fluctuating with supply and demand. A commodity (e.g. lumber) is readily exchangeable between suppliers. A commodity paper grade is produced in high volume, primarily on large, high-speed paper machines. Printing grades such as copy paper are often referred to as commodities.

Containerboard A type of paperboard used for packaging applications.

Corrugated containers Containers manufactured from corrugated board, which most commonly feature a fluted layer of corrugated medium in between two flat liners.

Corrugated medium Sheet of linerboard corrugated to increase its resistance and its anti-shock and insulation properties.

Engineered hardwood pulp Selected blends of maple and birch chips, manufactured into pulp to meet special papermaking requirements of customers.

Forest Stewardship Council (FSC) FSC is an international, non-profit organization founded in 1993 with headquarters in Mexico. The FSC certification system is based on 10 principles that reflect goals of promoting environmentally appropriate socially beneficial and economically viable management of forests. The principles were formulated on the basis of tropical forests and migrated to temperate forests.

International Organization for Standardization (ISO 14001) The ISO 14001 Standard examines environmental management by assessing the entire organizational system to determine how environmental issues fit into the overall management of the company. The standard enables the company to review the significant environmental aspects of its operations and then apply a set of procedures and controls to manage those aspects.

ISO International Standards Organization, based in Geneva.

Linerboard Containerboard lining the interior and exterior surfaces of corrugated containers.

NBSK and NBHK Northern Bleached Softwood Kraft pulp and Northern Bleached Hardwood Kraft pulp, two types of very high-quality wood pulp manufactured from softwood or hardwood, respectively, and used to make paper.

Ozone bleaching A process that uses ozone to whiten cellulose fibres following kraft pulping and oxygen delignification processing.

Recovery rate Volume of dimensional lumber produced per cubic meter of logs consumed.

Sustainable development Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Tonne Metric tonne (1 metric tonne = 1.1023 short tons).

Value-added product A commodity or other product that has been processed in a manner to enhance its usefulness and/or add to its financial value. In the sustainable development sense, value-added also occurs when more valuable products are created from a given amount of resources.

Production notes

Covers
Bravo Cover, Gloss, 100 lb

Inside pages

Pages 1 to 22
Bravo Text, Gloss, 100 lb

Inserts
Luna Text, Gloss, 80 lb

Pages 23 to 32
Plainfield Plus Opaque, Natural White, 70 lb

Inserts
Luna Text, Mat, 80 lb

Pages 33 to 68
Insignia, Natural Granite, 70 lb

Insert
Weeds Text, Barley, 70 lb

Production
Communications and Government Relations Department, Domtar Inc.

Graphic Design
Desjardins Design Marketing

Photographer
Pierre Charbonneau

Customer Inquiries

Communication Papers

Papers

Canada and United States

toll free: 1 800 267-2040

Kraft Pulp

Canada and Overseas

Montréal, Québec tel.: (514) 848-5196
fax: (514) 848-5150

United States

Serves the New England and Midwest Areas:

Newtown, Connecticut tel.: (203) 270-0779
fax: (203) 270-0267

Domtar-owned Merchants

The Paper House

Dartmouth, Nova Scotia tel.: (902) 468-6323
fax: (902) 468-4311

Mount Pearl, Newfoundland tel.: (709) 368-2108
fax: (709) 368-1018

Saint John, New Brunswick tel.: (506) 633-0909
fax: (506) 653-9802

Buntin Reid Paper

Mississauga, Ontario tel.: (905) 670-6060
fax: (905) 670-6064

Ottawa, Ontario tel.: (613) 731-8410
fax: (613) 731-8013

London, Ontario tel.: (519) 659-8446
fax: (519) 659-8449

JBR La Maison du Papier

Lachine, Québec tel.: (514) 636-5006
fax: (514) 636-7135
toll free: 1 888 671-5000

Québec City, Québec tel.: (418) 623-2800
fax: (418) 627-0350

Eddy Specialty Papers

Technical and Specialty Papers

Canada: tel.: 1 800 267-5290
United States: tel.: 1 800 267-0721

Fine Papers

Eastern Region

Canada: tel.: 1 800 267-5280
United States: tel.: 1 800 267-0702

Western Region

U.S. and Canada: tel.: 1 800 663-6200

Wood Products

Lumber

Montréal, Québec tel.: (514) 848-5133
fax: (514) 848-6885

Ottawa, Ontario tel.: (613) 725-6831
fax: (613) 725-6833

Packaging (Norampac Inc.)

Montréal, Québec tel.: (514) 282-2635
fax: (514) 282-2677

Shareholder and Investor Information

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:30 p.m. on Thursday, April 27, 2000, at The Queen Elizabeth Hotel, Montréal, Québec.

Annual Information Form

The Annual Information Form may be obtained by writing to the Secretary of Domtar Inc.

Transfer Agents and Registrars

For Common and Series "A" and "B" Preferred Shares and Debentures:
Montreal Trust Company – Halifax, N.S.; Saint John, N.B.; Montréal, Qué.; Toronto, Ont.; Winnipeg, Man.; Regina, Sask.; Calgary, Alta.; Vancouver, B.C.

For Common Shares only:
The Bank of New York, New York, N.Y.

U.S. Cash Dividend Plan

Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with Montreal Trust Company at (514) 982-7555 or 1 800 736-1755.

Stock Exchanges

Common and Series "A" and "B" Preferred Shares are listed on the Toronto Stock Exchange.

The Common Shares are also listed on the New York Stock Exchange.

Ticker Symbol: DTC

Investor Relations

Christian Dubé
Senior Vice-President and Chief Financial Officer
Telephone: (514) 848-5511

Jean-Sébastien Vanbrugghe
Analyst, Investor Relations
Telephone: (514) 848-5469
Fax: (514) 848-5638

Internet: ir@domtar.com

Shareholder Services

Shareholders having inquiries concerning their shares or debentures, or wishing to obtain information about the Corporation should contact:

Montreal Trust Company

Shareholder Services
1800 McGill College Avenue
Place Montréal Trust
6th Floor
Montréal, Québec
H3A 3K9
Telephone: (514) 982-7555 or 1 800 736-1755

Head Office

395 de Maisonneuve Blvd. West
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H3A 1L6
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